



City of Hattiesburg Hattiesburg, MS

HOME Investment Partnerships Program

**Office of Audit, Region 4
Atlanta, GA**

**Audit Report Number: 2018-AT-1011
September 28, 2018**



To: Donnetta McAdoo, Director, Office of Community Planning and Development,
4GD

//Signed//

From: Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: The City of Hattiesburg, MS, Did Not Always Administer Its HOME Investment Partnerships Program in Accordance With HUD's and Its Own Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Hattiesburg's HOME Investment Partnerships 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 404-331-3369.



Audit Report Number: 2018-AT-1011

Date: September 28, 2018

The City of Hattiesburg, MS, Did Not Always Administer Its HOME Investment Partnerships Program in Accordance With HUD's and Its Own Requirements

Highlights

What We Audited and Why

We audited the City of Hattiesburg's HOME Investment Partnerships (HOME) program based on a referral from the U.S. Department of Housing and Urban Development (HUD), Office of Community Planning and Development's field office in Jackson, MS, to address a request by the City's mayor for a comprehensive review of the City's HOME program. In addition, we selected the City for review in accordance with our annual audit plan. The objective of our review was to determine whether the City administered its HOME program in accordance with HUD's and its own requirements.

What We Found

The City did not always administer its HOME program in accordance with HUD's and its own requirements. Specifically, the City did not always (1) adequately support commitments or commit funds within the required timeframe, (2) ensure that its written agreements met HUD's requirements, (3) enter commitments into HUD's Integrated Disbursement and Information System (IDIS) in a timely manner, (4) disburse funds appropriately, and (5) ensure that activities met its own affordability period requirements. This condition occurred because the City's staff was not fully aware of HUD's and its own requirements and the City lacked adequate procedures to ensure compliance with HUD's requirements for timeliness of commitments. As a result, the City (1) inappropriately used more than \$441,000 in program funds without adequate documentation to support commitments and disbursements, (2) failed to commit more than \$32,000 in program funds within the statutory commitment deadline, and (3) inappropriately disbursed more than \$33,000 before executing written agreements. In addition, HUD and the City lacked assurance that the HOME program was administered in accordance with HUD's and the City's requirements. Lastly, the City compromised the integrity and the degree of reliability that HUD could place on the data in IDIS.

What We Recommend

We recommend that the Director of HUD's Jackson, MS, Office of Community Planning and Development require the City to (1) support more than \$474,000 or reimburse its program from non-Federal funds and (2) develop and implement procedures to ensure that the HOME program is administered in accordance with HUD's and its own requirements. Further, we recommend that the Director recapture more than \$32,000 in program funds not committed by the City.

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Background and Objective

The City of Hattiesburg, MS, is an entitlement grantee that receives annual allocations of HOME Investment Partnerships (HOME) program funds from U.S. Department of Housing and Urban Development (HUD) as authorized under the Title II of the Cranston-Gonzalez National Affordable Housing Act as amended for the purpose of expanding home ownership and affordable housing opportunities for low- and very low-income families. HOME program funds can be used to carry out housing strategies through acquisition, rehabilitation, new housing construction, and tenant-based rental assistance.

To assist in achieving these housing strategies, grantees must designate a minimum of 15 percent of their HOME allocations for investment in housing to be developed, sponsored, or owned by community housing development organizations (CHDO). A CHDO is a private, nonprofit, community-based service organization, the primary purpose of which is to provide and develop decent, affordable housing for the community it serves. As of the time of our audit, Congress had suspended the 24-month HOME commitment requirement for deadlines occurring in 2016, 2017, 2018, and 2019 via the Fiscal Year 2017 Consolidated Appropriations Act (Public Law No. 115-31). However, the suspension did not apply to CHDO set-aside funds (CHDO reserves). Therefore, our audit results related to 24-month commitment deadlines are based on improper and invalid commitments funded with CHDO reserves.

In fiscal years 2013 through 2017, HUD allocated more than \$1.1 million in HOME funds to the City as outlined in the table below.

| Fiscal year | HOME funds |
|--------------|------------------|
| 2013 | \$239,711 |
| 2014 | 235,869 |
| 2015 | 213,460 |
| 2016 | 217,807 |
| 2017 | 212,951 |
| Total | 1,119,798 |

The allocated funds are tracked through HUD's Integrated Disbursement and Information System (IDIS), which is a nationwide database that provides HUD with current information regarding HOME program activities underway, including funding data. Further, HUD uses the information in IDIS to report to Congress and monitor grantees. The grantees use IDIS to commit and draw down HOME funding and report on what is accomplished with these funds.

Our audit objective was to determine whether the City administered its HOME program in accordance with HUD's and its own requirements. Specifically, we wanted to determine

whether the City ensured (1) the eligibility and accuracy of program commitments and disbursements and (2) that its written agreements complied with the requirements.

Results of Audit

Finding: The City Did Not Always Administer Its HOME Program in Accordance With HUD's and Its Own Requirements

The City did not always administer its HOME program in accordance with HUD's and its own requirements. Specifically, the City did not always ensure that (1) program commitments were supported or committed within the required timeframe, (2) its written agreements met HUD requirements, (3) commitments were entered into IDIS in a timely manner, (4) it obtained adequate support and executed written agreements before disbursing HOME funds, and (5) activities met its own affordability period requirements. This condition occurred because the City's staff was not fully aware of HUD's and its own requirements. In addition, the City lacked adequate procedures to ensure compliance with HUD's requirements for committing program funds in a timely manner. As a result, the City inappropriately used more than \$506,000 in HOME funds, HUD and the City lacked assurance that the HOME funds were administered in accordance with HUD's and its own requirements, and the City compromised the integrity of IDIS and the degree of reliability that HUD could place on IDIS data.

Program Commitments Not Supported or Committed Within the Required Timeframe

The City did not always ensure that commitments¹ were adequately supported with written agreements or other required documentation, such as income documentation and adequately executed change orders. Specifically, 16 of the 23 (70 percent) commitments reviewed² were not adequately supported, and 1 commitment was not committed within the City's 24-month commitment deadline as required. For example, activity 1391 showed \$61,912 as committed in IDIS; however, the file did not contain adequate documentation to support the entire commitment amount. In this case, the file contained an executed, legally binding agreement totaling only \$49,800 and change orders totaling \$6,975. However, the change orders were not signed as required. Therefore, we determined that \$5,137 (\$61,912 - \$49,800 - \$6,975) of the commitment amount in IDIS was unaccounted for and \$6,975 in commitments was not adequately supported. We noted similar issues regarding a lack of adequate documentation with change orders missing required signatures or a portion of the committed amount being unaccounted for in 15 more of the files reviewed.

Examples of other unsupported commitments included missing documentation, such as bids to support full and open competition³ and income verification documentation to support that the

¹ According to 24 CFR (Code of Federal Regulations) 92.2(1), a commitment occurs when the participating jurisdiction has executed a legally binding written agreement with the recipient to use a specific amount of HOME funds.

² See the Scope and Methodology section of this report for details on our sample selections for reviewing commitments, written agreements, and disbursements.

³ For all procurement transactions, full and open competition was required under 24 CFR 85.36(c)(1). In addition, 24 CFR 85.36(b)(9) required grantees to maintain records sufficient to detail the significant history of

participants met HUD's income eligibility requirements. Further, according to the City, activities 1361, 1362, and 1363 did not have any documentation available due to a natural disaster that destroyed the files. However, the City was able to partially reconstruct the files from other documentation kept on-site and through its legislative or permanent records. The City provided the reconstructed files with its comments included in Appendix B. We updated the report to reflect the documentation provided. The table below lists the activities that we determined did not have adequately supported commitments.

Table 1: Commitments review

| Activity number | Commitment amount | Unaccounted commitment amount | Activity type | Adequately supported? | Costs not properly supported ⁴ |
|-----------------|-------------------|-------------------------------|-----------------------|-----------------------|---|
| 1362 | \$60,870 | X | Owner rehabilitation | No | \$60,870 |
| 1383 | 55,863 | X | Owner rehabilitation | No | 55,863 |
| 1388 | 53,176 | X | Owner rehabilitation | No | 53,176 |
| 1433 | 50,124 | X | Owner rehabilitation | No | 50,124 |
| 1363 | 46,013 | X | Owner rehabilitation | No | 46,013 |
| 1361 | 45,937 | X | Owner rehabilitation | No | 45,937 |
| 1412 | 56,079 | X | Owner rehabilitation | No | 21,454 |
| 1391 | 61,912 | X | Owner rehabilitation | No | 12,112 |
| 1389 | 55,687 | X | Owner rehabilitation | No | 8,887 |
| 1461 | 54,803 | X | Owner rehabilitation | No | 4,804 |
| 1414 | 51,078 | X | Owner rehabilitation | No | 3,698 |
| 1413 | 50,394 | X | Owner rehabilitation | No | 3,264 |
| 1462 | 54,027 | X | Owner rehabilitation | No | 2,647 |
| 1431 | 31,228 | X | Owner rehabilitation | No | 1,228 |
| 1464 | 64,690 | X | Rental rehabilitation | No | 652 |
| 1390 | 50,473 | X | Owner rehabilitation | No | 0 ⁴ |
| Totals | 842,354 | N/A | N/A | N/A | 370,729 |

In addition, the City did not ensure that the commitment deadline was always met. For activity 1464, in which CHDO reserve funding from its fiscal year 2015 was used, IDIS showed that the activity was committed on June 22, 2017. However, the written agreement was not executed until August 4, 2017. The City's 24-month commitment deadline for 2015 grant year funds was

a procurement. In December 2014, the regulation at 24 CFR 85.36 was relocated to 2 CFR 200. Specifically, beginning December 2014, full and open competition was required at 2 CFR 200.319(a) and 2 CFR 200.318(i) required that non-Federal entities to maintain records sufficient to detail the significant history of a procurement.

⁴ The costs not properly supported do not always match the commitment amount in the table, because we limited the costs not properly supported to (1) only the amount of each commitment that was not supported, (2) the amount of commitment not questioned in other sections of our review, and (3) the total amount that was committed. For example, we questioned the entire commitment amount totaling \$50,473 for activity 1390 in a later section of this report (below Table 3); therefore, we did not include any questioned cost for the activity in Table 1.

July 31, 2017. The suspension of the 24-month HOME commitment requirement for deadlines occurring in 2016 through 2019 under the Fiscal Year 2017 Consolidated Appropriations Act (Public Law No. 115-31) did not apply to CHDO set-aside or reserve funds. Therefore, \$32,019 in fiscal year 2015 grant funding not committed by the 24-month statutory deadline is subject to recapture by HUD.

Written Agreements Not Compliant With HUD's Requirements

The City failed to ensure that its written agreements used to commit HOME funds met HUD's requirements for 3 of 23 (13 percent) activities reviewed. The written agreements did not comply with HUD's requirements on income affordability and the prohibition of certain fees.

The written agreement for rental rehabilitation activity 1386 included a provision that called for the single-family home to be rented to a low- to moderate-income household. However, in 24 CFR (Code of Federal Regulations) 92.253(d)(1), HUD required that rental housing be limited to very low- and low-income families. In addition, the written agreements for activities 1365 and 1409 included a provision that called for the single-family home to be sold to a low- to moderate-income household, when 24 CFR 92.254(a)(3) required the housing to be acquired by a home buyer whose family qualified as low income instead of low to moderate income. Further, activity 1409 was missing a provision that prohibited certain fees required by 24 CFR 92.504.

Commitments Not Entered Into IDIS in a Timely Manner

Of the 23 commitments reviewed, the City did not enter 9 (39 percent) commitments into IDIS in a timely manner. Specifically, the nine commitments were entered into IDIS from 1 to 117 days before the contract execution date. In other words, the City entered the commitment prematurely into IDIS, inappropriately showing program funds as committed in the system. The table below summarizes the results of our review by activity.

Table 2: Timeliness of commitments

| Activity number | Commitment date in IDIS | Written agreement execution date | Days premature on commitment entered into IDIS |
|-----------------|-------------------------|----------------------------------|--|
| 1361 | May 15, 2013 | September 9, 2013 | 117 |
| 1362 | June 26, 2013 | September 9, 2013 | 75 |
| 1383 | January 27, 2014 | March 26, 2014 | 58 |
| 1363 | June 26, 2013 | August 22, 2013 | 57 |
| 1464 | June 22, 2017 | August 4, 2017 | 43 |
| 1413 | July 20, 2015 | August 10, 2015 | 21 |
| 1414 | July 20, 2015 | August 5, 2015 | 16 |
| 1444 | October 10, 2016 | October 14, 2016 | 4 |
| 1426 | December 29, 2015 | December 30, 2015 | 1 |

The City lacked procedures to ensure compliance with HUD's requirements for timeliness of commitments. Specifically, the City did not have procedures to ensure that written agreements were executed before the commitment of activities in IDIS.

In addition, during our review, we identified some minor deficiencies related to the City's entries into IDIS and its record retention policy, which we communicated to HUD in a separate memorandum.

Disbursements Not Adequately Supported or Written Agreements Not Executed Before Disbursements

The City did not always maintain adequate support for disbursements of HOME funds as required. Activity 1414 did not contain a drawdown request or purchase order as required; therefore, the entire \$20,000 disbursement drawdown was not adequately supported. In addition, the City did not always execute a written agreement to commit the funds before disbursing funds in 4 of the 15 (27 percent) disbursements reviewed. Specifically, activities 1407, 1411, 1439, and 1444 had disbursements, which occurred before the execution of a written agreement committing the funds. As a result, \$33,258 in disbursements for these activities was inappropriate. The table below summarizes the results of our review by activity.

Table 3: Disbursements review

| Activity number | Disbursement amount reviewed | Adequately supported? | Written agreement executed before disbursement? | Costs not properly supported | Inappropriate costs |
|-----------------|------------------------------|-----------------------|---|------------------------------|---------------------|
| 1414 | \$20,000 | No | Yes | \$20,000 | \$0 |
| 1444 | 15,795 | Yes | No | 0 | 15,795 |
| 1407 | 8,813 | Yes | No | 0 | 8,813 |
| 1411 | 8,000 | Yes | No | 0 | 8,000 |
| 1439 | 650 | Yes | No | 0 | 650 |
| Totals | 53,258 | N/A | N/A | 20,000 | 33,258 |

Affordability Period Requirements Not Met for Activity 1390

The City did not ensure compliance with its affordability period for activity 1390. Specifically, the written agreement showed a different homeowner from the current owner shown on tax records for the property. The City imposed a 15-year affordability period through a written agreement executed in April 2014; therefore, the affordability period was still in effect at the time of our review. However, because the property's owner was not the original recipient, the \$50,473 in program funds committed to this activity was not adequately supported.

City Staff Not Fully Aware of HUD's and Its Own Requirements and Lacking Adequate Procedures

Given the timeframe of the current Mayoral administration, the deficiencies noted occurred during the previous administration's tenure. Nonetheless, we noted that the City did not have a policy to address the training needs of its staff responsible for administering the HOME program, which resulted in its staff's not being fully aware of HUD's and its own requirements. We asked the City's staff members primarily responsible for administering the HOME program whether they had taken training related to the HOME program in the past 3 years. One of the individuals stated that he had taken only one training course during that period, while the other individual

said that he had not taken any courses. We discussed training with one of the City's management officials, and he agreed that it was an area in which the City could improve.

In addition, the City lacked adequate procedures to ensure compliance with HUD's requirements for committing HOME funds in a timely manner. The procedures that were in place at the time of our review were unclear and did not directly require that written agreements be executed before the entry of commitments into IDIS. In response to our inquiry, the City developed an internal policy to require the execution of a written agreement that is signed and dated by all parties before the commitment of any funds in IDIS.

Conclusion

The City inappropriately used more than \$506,000 in HOME funds. In addition, HUD and the City lacked assurance that the HOME funds were administered in accordance with HUD's and the City's requirements. Lastly, the City compromised the integrity of IDIS and the degree of reliability that HUD could place on IDIS data. The City's staff was not fully aware of HUD's and its own requirements. In addition, the City lacked adequate procedures to ensure compliance with HUD's requirements for committing program funds in a timely manner.

Recommendations

We recommend that the Director of HUD's Jackson, MS, Office of Community Planning and Development

- 1A. Require the City to support \$441,202 (\$370,729 + \$20,000 + \$50,473) or reimburse its program from non-Federal funds for commitments and expenditures not adequately supported.
- 1B. Require the City to reimburse its program \$33,258 from non-Federal funds for inappropriate costs incurred before the written agreements were executed.
- 1C. Recapture and thereby put \$32,019 to better use, which the City did not commit by its 24-month statutory commitment deadline in fiscal year 2015 funding for activity 1464.
- 1D. Require the City to develop and implement HOME procedures, including training for the City's employees, to ensure that (1) commitments are accurately entered into IDIS to maintain data integrity and (2) the HOME program is administered in accordance with HUD's and its own requirements.
- 1E. Verify that the remaining 14⁵ commitments made during the period January 1, 2013, through December 31, 2017, were properly supported with written agreements and accurately entered into IDIS.

⁵ As detailed in the Scope and Methodology section of this report, we reviewed 23 of the 37 commitments entered into IDIS by the City.

- 1F. Require the City to follow its newly developed policy regarding the execution of a written agreement that is signed and dated by all parties before the commitment of any funds in IDIS.

Scope and Methodology

We performed our audit work between February and July 2018 at the City's Community Development Division located at 200 Forrest Street, Hattiesburg, MS, and at our office in Atlanta, GA. The audit period was January 1, 2013, through December 31, 2017.

To accomplish our objective, we interviewed HUD program staff and the City's employees. In addition, we obtained and reviewed the following:

- Applicable laws; HUD's regulations at 24 CFR Part 92; HOME Facts, Volume 3; and HUD Building HOME Manual.
- The City's policies, procedures, controls, reports in IDIS, and written agreements.

From a universe of 37 commitments totaling more than \$1.15 million, we selected and reviewed a nonstatistical sample of 23 commitments totaling more than \$1.11 million (96.4 percent) reported in IDIS from January 1, 2013, through December 31, 2017, to determine whether the commitments were adequately supported, were entered into IDIS accurately and in a timely manner, and had associated written agreements that met HUD's requirements. We did not review 100 percent of the universe because we covered a significant percentage of the universe by selecting some of the City's largest HOME commitments. Therefore, the results of our review apply only to the sampled transactions and cannot be projected to the universe. Due to a timing difference, the total commitment universe of \$1.15 million does not match the total 5-year grant amount totaling \$1.11 million awarded to the City as listed in the Background and Objective section of this report. Specifically, the commitment universe included all commitments made during the period January 1, 2013, through December 31, 2017, which included grant years outside 2013 through 2017.

In addition, we reviewed 100 percent of applicable commitments from a universe of 37 commitments, representing 29⁶ commitments totaling more than \$1.15 million reported in IDIS from January 1, 2013, through December 31, 2017. Specifically, we reviewed 100 percent of commitments for which an affordability period applied to determine whether the commitments met HUD's and the City's affordability requirements.

Further, from a universe of 252 disbursements totaling more than \$1.27 million, reported in IDIS from January 1, 2013, through December 31, 2017, we selected and reviewed a nonstatistical sample of 15 disbursements totaling \$255,261 (20 percent) to determine whether the disbursements were eligible and adequately supported with written agreements before being disbursed. The sample included some of the largest disbursements and a variety of HOME activities, including home-buyer assistance, homeowner rehabilitation, CHDO new construction,

⁶ From the universe of 37 commitments, we excluded 8 commitments for tenant-based rental activities because those activities were not subject to HUD's affordability requirements.

and administration costs, to provide comprehensive coverage. Therefore, we did not review 100 percent of the 252 disbursements. Thus, the results of our review apply only to the sampled transactions and cannot be projected to the universe. Due to a timing difference, the total disbursement universe of more than \$1.27 million does not match the total 5-year grant amount totaling \$1.11 million awarded to the City as listed in the Background and Objective section of this report. This difference is because the disbursement universe included all disbursements made during the period of January 1, 2013, through December 31, 2017, which included grant years outside 2013 through 2017.

For activity 1464, we determined that \$32,019 was subject to recapture, deobligation, and thereby funds to be put to better use based on the fiscal year funding used for the activity. Specifically, on June 22, 2017, the City committed the activity in IDIS using \$32,019 in fiscal year 2015 and \$32,671 in fiscal year 2016 funding. However, the written agreement was not executed until August 4, 2017. Therefore, only the fiscal year 2015 funding was subject to recapture given its 24-month commitment deadline was July 31, 2017, which was before the written agreement execution date. Whereas, the 24-month commitment deadline for fiscal year 2016 funding is July 31, 2018, which was after the written agreement execution date.

We did not review and assess general and application controls for computer-processed data that the City entered into IDIS for commitments. We conducted other tests and procedures to ensure the integrity of computer-processed commitments that were relevant to the audit objective. Specifically, we examined written agreements to determine the accuracy of commitments the City entered into IDIS. The review disclosed that the City entered incorrect commitments into IDIS. We obtained correct information from written agreements for the activities reviewed and determined that incorrect entries compromised the reliability and integrity of IDIS.

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,
- reliability of financial reporting, 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 provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Validity and reliability of information – Policies and procedures that management has implemented to reasonably ensure that valid and reliable information is obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is in accordance 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 City's staff was not fully aware of HUD's and its own HOME requirements and did not have adequate procedures to ensure compliance with HUD's requirements for timeliness of commitments.

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

| Recommendation number | Ineligible 1/ | Unsupported 2/ | Funds to be put to better use 3/ |
|------------------------------|----------------------|-----------------------|---|
| 1A | | \$441,202 | |
| 1B | \$33,258 | | |
| 1C | | | \$32,019 |
| Totals | 33,258 | 441,202 | 32,019 |


- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if HUD implements our recommendation, it will recapture and deobligate \$32,019 in fiscal year 2015 funding that the City failed to commit before the 24-month statutory commitment deadline.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments


Mayor
Toby Barker

Council – Ward One
Jeffrey George

Council – Ward Two
Deborah Denard Delgado

Council – Ward Three
Carter Carroll

Council – Ward Four
Mary Dryden

Council – Ward Five
Nicholas Brown

Office of Audit (Region 4)
Attn: Nikita N. Irons, Regional Inspector General for Audit
75 Ted Turner Drive S.W., Room 330
Atlanta, GA 30303
SENT VIA EMAIL TO: NIrons@hudoig.gov

August 28, 2018

Dear Ms. Irons,

Thank you and your team again for responding to the City's request to review these programs and for working with us over these last few months. Per your request, below are our written comments pertaining to the draft audit report that we discussed in the exit conference on August 20, 2018.

Change Orders not signed. The city acknowledges that in some cases, invoices for change orders were found not to be signed. However, it is worth noting that in the course of a housing rehabilitation project, there are no less than three Community Development Division staff members intimately familiar with the projects, any need for change orders, and their processing to be completed. Likewise, the approval process for payments on change orders involve multiple parties. While some change orders were found to not include the homeowner's signature, it is worth noting that change orders are related to discovery of critical issues and are not a matter of discretionary work. With that in mind, there really is no choice in addressing change orders. If the homeowner were, hypothetically, to refuse, then the City and the Contractor would be unable to deliver a finished project that would satisfy code requirements or HUD's standards. Further, even in the absence of change orders signed by the homeowner, the homeowner acknowledges and accepts the work and all related costs at the completion of the project when the Deed of Trust protecting the HUD investment for the duration of the affordability period is signed. The City of Hattiesburg recognizes that measures will need to be taken in the future to ensure that our staff, the homeowner, and the contractor all sign off on change orders to eliminate any question regarding change orders. In light of that, we request that all amounts related to change orders be removed from this report.

City of [Hattiesburg](http://www.hattiesburg.ms) • Post Office Box 1898 • Hattiesburg, Mississippi • 39403-1898

Comment 1

Ref to OIG Evaluation

Auditee Comments

Comment 2

"Other" unsupported costs. At one time, the city's homeowner rehabilitation program had a policy, acknowledged by the homeowners, that allowed for a flat monthly stipend to assist recipients with living expenses while they had to be out of their homes for rehabilitation work, which was for the entire rehab period due to the extent of the work on these projects. Likewise, projects included preliminary costs such as environmental testing, and when needed, lead or asbestos abatements. The City contracted these services separately from the homeowner's contract with the general contractor, yet they are certainly necessary project costs. Though the homeowner does not have a separate contract for these items, they are addressed in the program policies and documents signed by the homeowner, and the homeowner ultimately acknowledges and accepts responsibility for these costs at the completion of the project with the signing and filing of the Deed of Trust protecting the HUD investment for the duration of the affordability period. Further, it should be clear that it is not as though the costs described in this section are unsubstantiated; documentation exists in the files showing exactly what the costs are/were and that they were approved. They are only made an issue in this audit report because they were not made a part of the scope of work for the prime contractor. The City of Hattiesburg recognizes that measures will need to be taken in the future to ensure that all ancillary costs that are not a part of the prime contractor's responsibility will need to be captured more specifically in another way. In light of that, we request that all amounts related to ancillary costs be removed from this report.

Comment 3,
4, 5, and 6

In the draft report, activities 1383, 1388, and 1433 are shown as having significant unsupported costs (\$55,863, \$53,176, and \$50,124, respectively). However, during the HUD OIG review of the City of Hattiesburg's HOME program, reviewers earlier (June 15, 2018) indicated that the unsupported amounts for these activities was only \$7,002, \$4,455, and \$596, respectively. The difference on all of these figures appears to be the amount of each homeowner/contractor agreement, which are all properly supported. We believe that these three activities should be removed from this report entirely (the remaining \$7,002, \$4,455, and \$596 all having been described in the sections above regarding change orders and other ancillary costs). Concerns specific to activity 1383 may have related to quote documentation missing from the file. However, we believe that information provided is adequate to confirm that the project was properly quoted by contractors. The Community Development Division periodically solicits and selects Qualified Eligible Contractors to be utilized for these rehabilitation projects. Quotes for specific projects are sought from these contractors, and a selection committee of certain city staff identifies the lowest & best bid. Attached is the selection committee's recommendation for activity 1383. Concerns specific to activity 1388 may have related to income information that was believed by the reviewer to be missing for a certain person in the household. However, as was explained in the course of this review, that individual passed away before an activity was initiated. Therefore, that income information is not necessary as that person was no longer a part of the household. Concerns specific to activity 1433 may have been related to income received and immediately disbursed to a business partner. The household income considered should be reduced by the amount paid out to the business partner.

Comment 4

Comment 5

Comment 6

Comment 7

Activity 1390 Complies with Affordability Period. The draft report suggests that activity 1390 did not comply with the affordability period because the owner on the tax record does not match the original recipient. As documented during the course of the review, the original recipient passed away, and the deceased's adult child, who lived with her at the time of passing took ownership of the property. We are reviewing this situation internally to determine if/how/why the city was not notified of a change in ownership. Depending on the results of this review, the city plans to either identify that the current owner/occupant is eligible to carry out the remaining affordability period or take alternative action necessary to recapture funds, if necessary.

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**Ref to OIG
Evaluation**

Auditee Comments

Comment 8

Activity files for activities 1361, 1362, and 1363 were destroyed as a result of the January 2017 tornado. Some of the related files – those still kept on site or in legislative records – have been gathered where available in order to reconstruct the files to the extent possible. Attached are the files that were located, most important of which are the homeowner/contractor agreements for the rehabilitation associated with those three projects. Other documents include the supporting documents associated with each drawdown (invoices, etc.). With this supporting documentation, and given the extenuating circumstances regarding a natural disaster, the City requests that these activities be removed from this report.

If there is any additional information that would be helpful at this point, please feel free to contact us.

Respectfully,

Andrew Ellard
Director of Urban Development
City of Hattiesburg

Comment 9

Cc:

[REDACTED]

Toby Barker, Mayor City of Hattiesburg, MS
SENT VIA EMAIL

OIG Evaluation of Auditee Comments

Comment 1 The City acknowledged that in some instances, the change orders were not signed. However, the City asserted that even if a homeowner's signature was missing from a change order, the homeowner still accepted the work and all related costs at the completion of the project through the deed of trust.⁷ Therefore, the City requested that all amounts related to change orders be removed from the report.

We disagree with the City's request that all amounts related to change orders be removed from the report because fully executed written agreements, which include change orders, were required, according to 24 CFR 92.2(1), for committing HOME funds before incurring any expenditures. Further, the deed of trust cannot serve in lieu of written agreements as it is executed at the completion of the project. The City should work with HUD during the audit resolution process to ensure that commitments were properly supported or reimburse its program as stated in recommendation 1A.

Comment 2 The City stated that there was documentation in its files showing what the ancillary costs were and that they were approved. Specifically, the City stated that it contracted these services separately from the homeowner's contract with the general contractor. The City also recognized that measures would need to be taken in the future to ensure that ancillary costs would be addressed. Therefore, the City requested that all amounts related to ancillary costs be removed from the report.

We disagree with the City's request that all ancillary costs be removed from the report because the services for which it contracted separately were not adequate for committing HOME funds before incurring any expenditures. Specifically, for committing HOME funds, HUD required at 24 CFR 92.2(1) written agreements, change orders, or amendments and not separate contracts with service providers. However, we commend the City for recognizing the need to take measures to maintain documentation. The City should work with HUD during the audit resolution process to ensure that costs were supported as required or reimburse its program as stated in recommendation 1A.

Comment 3 For activities 1383, 1388, and 1433, the City compared the questioned costs in the report to an early draft version of questioned costs and stated that the difference appeared to be the amount of each agreement, which were all properly supported.

⁷ A deed of trust is executed after a project is completed and includes the total amount of HOME funds used for the activity. It serves as a security document to protect HOME funds in the event that the property is sold or transferred before the affordability period ends or if a loan is used to award the HOME funds in the event of default.

Specifically, the City stated that it believed these three activities should be removed from the report.

When we provided the draft version, we informed the City that those costs were tentative and subject to change. During the course of our review, we later informed the City of the increased questioned costs associated with activities 1383, 1388, and 1433 and provided it additional time to respond with supporting documentation. However, although the City stated that the costs were properly supported, documentation to support the costs was not made available for our review. The City should work with HUD during the audit resolution process to ensure that costs were properly supported or reimburse its program as stated in recommendation 1A.

- Comment 4 Regarding activity 1383, the City explained its procurement solicitation and selection process and stated that it believed the information provided was adequate to confirm that the project was properly quoted by contractors. Specifically, the City provided its procurement selection committee's recommendation for activity 1383.

The documentation provided by the City listed only the selection committee's recommendation on the procurement transaction for activity 1383. However, as stated in the report, for all procurement transactions, full and open competition was required under 24 CFR 85.36(c)(1) and 2 CFR 200.319(a). In addition, 24 CFR 85.36(b)(9) and 2 CFR 200.318(i) required grantees to maintain records sufficient to detail the significant history of a procurement. Therefore, we determined that the recommendation by the City's selection committee was not adequate to support the procurement transaction for activity 1383. We did not include this document in appendix B as it was not necessary. However, we provided it to HUD. The City should work with HUD during the audit resolution process to ensure that the procurement transaction for activity 1383 was proper and adequately supported or reimburse its program as stated in recommendation 1A.

- Comment 5 Regarding activity 1388, the City stated that it explained to us that the income information of a certain member of the household was not necessary as the individual passed away before the activity was initiated.

Although the City explained it, it did not provide documentation for our review to support that the activity was initiated before the individual passed away. The income analysis documentation in the file indicated that the individual was not deceased or the activity was not initiated before the individual passed away. The City should work with HUD during the audit resolution process to ensure that activity 1388 is adequately supported or reimburse its program as stated in recommendation 1A.

Comment 6 Regarding activity 1433, the City stated that concerns specific to this activity may have been related to income received and immediately disbursed to a business partner and that the household income considered should be reduced by the amount paid out to the business partner.

There was no documentation in the file, and the City did not provide documentation with its comments to support a business partner relationship. Further, we questioned the activity because a portion of the City's commitment amount was unaccounted for with a written agreement or change orders. The City should work with HUD during the audit resolution process to ensure that activity 1433 was adequately supported or reimburse its program as stated in recommendation 1A.

Comment 7 Regarding activity 1390, the City stated that it was reviewing the situation internally and depending on the results of this review, it planned to either determine that the current owner or occupant was eligible to complete the remaining affordability period or take action to recapture funds if necessary.

We commend the City's planned course of action. The City should work with HUD during the audit resolution process to ensure that activity 1390 complies with HUD's requirements or reimburse its program as stated in recommendation 1A.

Comment 8 The City stated that it was able to recreate portions of the files for activities 1361, 1362, and 1363, which were destroyed in a natural disaster. Specifically, the City provided 124 pages of documents, which included written agreements and supporting documentation for drawdowns. The City stated that given the provided documentation and the extenuating circumstance, the questioned costs for these activities should be removed from the report.

We did not include the documentation provided by the City in appendix B as it was not necessary. However, we provided the documents to HUD. We reviewed the documentation provided by the City and determined that it was inadequate to support the commitments. Specifically, the files still lacked income documentation needed to support that the HOME recipients were income eligible to receive HOME assistance. In addition, based on the documentation provided, the written agreements for all three activities were executed and thereby committed after the associated grant commitment deadline. Therefore, funding related to these activities may be subject to recapture. We updated the report to reflect the documentation provided. The City should work with HUD during the audit resolution process to ensure that activities 1361, 1362, and 1363 were adequately committed and supported or reimburse its program as stated in recommendation 1A.

Comment 9 Names and titles of audit team members were redacted for privacy concerns.