



## **City of Flint, MI**

# **HOME Investment Partnerships Program**



Issue Date: November 15, 2013

Audit Report Number: 2014-CH-1001

TO: Keith Hernandez, Director of Community Planning and Development, 5FD  
Dane M. Narode, Associate General Counsel for Program Enforcement, CACC

*Kelly Anderson*

FROM: Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

SUBJECT: The City of Flint, MI, Lacked Adequate Controls Over Its HOME Investment Partnerships Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), results of our review of the City of Flint'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 Web site. 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) 913-8684.



November 15, 2013

## The City of Flint, MI, Lacked Adequate Controls Over Its HOME Investment Partnerships Program

# Highlights

Audit Report 2014-CH-1001

### What We Audited and Why

We audited the City of Flint's HOME Investment Partnerships Program. We selected the City based upon our analysis of risk factors related to Program grantees in Region 5's<sup>1</sup> jurisdiction. Our objectives were to determine whether the City complied with Federal requirements and its own requirements in the administration of its Program. This is the third of three audit reports on the City's Program.

### What We Recommend

We recommend that HUD require the City to (1) reimburse its Program or HUD, for transmission to the U.S. Department of the Treasury, from non-Federal funds more than \$195,000; (2) provide sufficient supporting documentation or reimburse its Program from non-Federal funds more than \$107,000; and (3) implement adequate procedures and controls to address the findings cited in this audit report. We also recommend that HUD pursue the appropriate administrative actions for inappropriate certifications and ensure that nearly \$103,000 in Program funds is used only for eligible Program costs.

<sup>1</sup> Region 5 includes the States of Indiana, Illinois, Ohio, Michigan, Minnesota, and Wisconsin.

### What We Found

The City did not ensure that for a rental rehabilitation project, (1) Program funds were used in accordance with its contract with a subrecipient and (2) sufficient documentation was maintained to support the use of funds. It also did not ensure that (1) Program funds were used for eligible costs within 15 days of being drawn down from its treasury account and (2) its subrecipient procured all housing rehabilitation services through full and open competition. As a result, it (1) inappropriately used more than \$190,000 in Program funds and (2) lacked assurance that an additional \$90,000 was used for eligible costs. Further, the U.S. Treasury paid nearly \$5,000 in unnecessary interest on nearly \$304,000<sup>2</sup> in Program funds, which the City disbursed to its subrecipient that was not expended in the required timeframe.

The City did not reimburse its treasury account for Program funds drawn down and decommit additional funds for five owner-occupied rehabilitation projects that were later terminated. It also did not (1) maintain sufficient documentation to support its use of Program funds for a project, (2) ensure that a subrecipient appropriately procured housing rehabilitation services for 14 projects, and (3) accurately report in HUD's Integrated Disbursement and Information System the status of nine projects. As a result, (1) nearly \$103,000 in Program funds was not available for eligible activities and (2) the City lacked assurance that more than \$17,000 was used appropriately. Further, HUD and the City lacked assurance that the project accomplishments were accurately reported in HUD's system.

<sup>2</sup> This amount is not a questioned cost.

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## BACKGROUND AND OBJECTIVES

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**The Program.** Authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, the HOME Investment Partnerships Program is funded for the purpose of increasing the supply of affordable standard rental housing; improving substandard housing for existing homeowners; assisting new home buyers through acquisition, construction, and rehabilitation of housing; and providing tenant-based rental assistance.

**The City.** Organized under the laws of the State of Michigan, the City of Flint is governed by a mayor and a nine-member council, elected to 4-year terms. The City designated its Department of Community and Economic Development as the lead agency to administer its Program. The overall mission of the Department is to strengthen the economic well-being of the City by promoting affordable housing, neighborhood revitalization, business development, and job growth. The City's Program records are located at 1101 South Saginaw Road, Flint, MI.

The following table shows the amount of Program funds the U.S. Department of Housing and Urban Development (HUD) allocated to the City for Program years 2007 through 2010.

<b>Program year</b>	<b>Program funds</b>
<b>2007</b>	1,027,094
<b>2008</b>	1,173,131
<b>2009</b>	1,306,202
<b>2010</b>	<u>1,301,500</u>
<b>Total</b>	<b><u>\$4,807,927</u></b>

HUD did not award the City Program funds in Program year 2006 and reduced the City's award of Program funds for Program year 2007 by more than \$100,000 due to the City's failure to commit nearly \$156,000 in Program funds by June 30, 2005, to comply with HUD's 24-month commitment deadline and to disburse more than \$1.2 million in Program funds by October 31, 2005, to comply with HUD's 5-year disbursement deadline.

Our objectives were to determine whether the City complied with Federal requirements and its own requirements in the administration of its Program. Specifically, our objectives were to determine whether the City ensured compliance with applicable requirements in (1) its use of Program funds for a rental rehabilitation project and owner-occupied rehabilitation projects, (2) the reimbursement of its HOME investment trust fund treasury account for Program funds that it drew down and decommitment of Program funds for owner-occupied rehabilitation projects that were later terminated, (3) subrecipients' procurement of housing rehabilitation services for the rental rehabilitation project and owner-occupied rehabilitation projects, and (4) its reporting of the status of owner-occupied rehabilitation projects in HUD's Integrated Disbursement and Information System. This is the third of three audits of the City's Program (OIG audit report numbers 2009-CH-1020 and 2011-CH-1001, dated September 30, 2009, and October 13, 2010, respectively).

## RESULTS OF AUDIT

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### Finding 1: The City Did Not Ensure That Its Use of Program Funds for a Rental Rehabilitation Project Complied With Its Contract With a Subrecipient and Federal Requirements

The City did not ensure that for a six-unit rental rehabilitation project (1) Program funds were used in accordance with its contract with a subrecipient and (2) sufficient documentation was maintained to support the use of funds. It also did not ensure that (1) Program funds were used for eligible costs within 15 days of being drawn down from its treasury account and (2) its subrecipient procured all housing rehabilitation services through full and open competition. These weaknesses occurred because the City lacked adequate procedures and controls to ensure that it used Program funds for the project in accordance with its contract with the subrecipient and Federal requirements. As a result, it (1) inappropriately used more than \$190,000 in Program funds and (2) lacked assurance that an additional \$90,000 was used for eligible costs. Further, the U.S. Treasury paid nearly \$5,000 in unnecessary interest on nearly \$304,000 in Program funds, which the City disbursed to its subrecipient that was not expended in the required timeframe.

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#### **The City Did Not Use Program Funds in Accordance With Its Contract and Lacked Sufficient Supporting Documentation**

We reviewed a project for which the City drew down nearly \$458,000 in Program funds from October 2007 through October 2012.

Contrary to HUD's regulations at 24 CFR (Code of Federal Regulations) 92.504 and the City's contract<sup>3</sup> with Flint Neighborhood Improvement and Preservation Project,<sup>4</sup> the City inappropriately drew down and disbursed \$190,457 in Program funds to Flint Project to pay for housing rehabilitation services for a six-unit project. The contract stated that the funds were to be used to provide housing rehabilitation services for 18 single-family rental rehabilitation projects.

Further, the City was unable to support its use of \$90,205 in Program funds that was drawn down for the project. Specifically, it lacked sufficient documentation to support (1) \$4,329 in Program funds disbursed to Flint Project was used for eligible costs and (2) that \$85,876 in Program funds was disbursed to Flint Project and used for eligible costs as required by HUD's regulations at 24 CFR 85.20(b) and Federal regulations at appendix A, section C.1, of 2 CFR Part 225.

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<sup>3</sup> Contract number 07-077

<sup>4</sup> A nonprofit subrecipient

**The City Disbursed Program Funds to a Subrecipient That Were Not Expended in the Required Timeframe**

Contrary to HUD’s regulations at 24 CFR 92.502(c)(2) and the City’s contracts<sup>5</sup> with Flint Project, the City inappropriately drew down and disbursed nearly \$304,000 in Program funds to Flint Project more than 15 days before the funds were used. Although, the City drew down the funds from its treasury account on June 30, 2008, the funds were not used for eligible costs until 31 to 302 days later. Therefore, the U.S. Treasury paid nearly \$5,000 in unnecessary interest on the funds. The following table shows the use dates, the balance of Program funds before use, the amount of funds used, and the amount of interest the U.S. Treasury paid<sup>6</sup> after the 15<sup>th</sup> day after the drawdown (for the first use on July 31, 2008) or the previous use for the funds that the City inappropriately disbursed to Flint Project.

<b>Date of use</b>	<b>Balance of Program funds</b>	<b>Program funds used</b>	<b>Interest paid</b>
July 31, 2008	\$303,900	\$42,300	\$574
August 13, 2008	261,600	43,200	419
September 18, 2008	218,400	28,800	920
October 23, 2008	189,600	21,600	788
November 18, 2008	168,000	20,700	536
January 21, 2009	147,300	9,900	843
February 18, 2009	137,400	34,200	385
March 25, 2009	103,200	38,700	364
April 9, 2009	64,500	19,526	94
April 22, 2009	44,974	22,484	59
April 28, 2009	22,490	22,490	14
<b>Totals</b>		<b>\$303,900</b>	<b>\$4,996</b>

Further in an application and certificate for payment, the contractor’s vice president and an architect from an architectural firm hired by Flint Project inappropriately certified on June 24 and June 25, 2008, respectively, that the contractor had completed its housing rehabilitation work on the project. In addition, in a financial and activity report, Flint Project’s executive director inappropriately certified that the financial and activity report and necessary supporting documentation were consistent with contract conditions and the City’s

<sup>5</sup> Contract numbers 07-037 and 07-077

<sup>6</sup> We were conservative in our determination of the amount of unnecessary interest that the U.S. Treasury paid. We based our calculation on the 10-year U. S. Treasury rate using simple interest on the Program funds from after the 15<sup>th</sup> day on which the funds were drawn down to the date on which the funds were used for eligible expenses by Flint Project.

standard operating procedures for subrecipients funded with Community Development Block Grant, Emergency Shelter Grant, and Program funds. Both the application and certificate for payment and the financial and activity report were submitted with Flint Project's payment request to the City.

**The City Did Not Ensure That All Housing Rehabilitation Services Were Procured Through Full and Open Competition**

The City did not ensure that Flint Project fully complied with HUD's regulations at 24 CFR 84.43 and 84.44 and Federal regulations at 2 CFR 215.43 regarding the procurement of housing rehabilitation services for the project. The architectural firm hired by Flint Project requested sealed bids for the housing rehabilitation work. The sealed bids were to be based on work specifications and drawings prepared by the architectural firm. However, the work specifications and drawings did not always sufficiently detail the services to be provided. The work specifications and drawings generally lacked an accurate description of the technical requirements, including measurements, dimensions, or other specific details related to the services. Five companies submitted sealed bids, and on January 16, 2008, the City and Flint Project opened the bids. The lowest bid for the housing rehabilitation work was \$237,800.

Further, on February 1, 2008, Flint Project and the architectural firm requested that the contractor that submitted the lowest bid provide quotes for the following changes to and additional items that were not included in the work specifications: (1) General Electric rather than Tappan appliances; (2) under-cabinet hanging microwaves rather than hood fans above stoves; (3) stoves with ceramic tops; (4) dishwashers including installation, plumbing, and electrical; (5) 1-foot square vinyl tile rather than sheet vinyl; (6) oak edges to kitchen counters; (7) stackable washers and dryers, including electrical, plumbing, carpentry, drywall, painting, and trim work; (8) air-conditioning units, including electrical upgrade; and (9) site work and landscaping. However, the request did not sufficiently detail the housing rehabilitation services to be provided. On February 4, 2008, the contractor provided a quote for the changes and additional items totaling \$73,681.

On June 2, 2008, the owner entered into the construction contract with the contractor for \$330,000 based on the low bid of nearly \$238,000, the additional quote of nearly \$74,000, and additional bond and appliance allowances for \$18,519. Therefore, Flint Project awarded \$92,200 (nearly \$74,000 from the additional quote and nearly \$19,000 for the additional bond and appliance allowances) for housing rehabilitation services without free and open competition. Further, the construction contract was 38.7 percent more than the initial low bid.



In addition, five change orders from January 2009 through July 2010 increased the construction contract by a net of \$14,093. Four of the change orders increased the construction contract by more than \$30,000. The fifth change order reduced the construction contract by more than \$16,000. However, the change orders did not sufficiently detail the housing rehabilitation services to be provided or removed. Further, the fifth change order included the removal of more than \$15,000 for appliances that were part of the construction contract. This reduction was based on a new quote the contractor obtained for appliances in April 2009, rather than amounts included in the contractor's low bid, the contractor's quote on February 4, 2008, or the additional bond and appliance allowance. Neither the work specifications nor the request, dated February 1, 2008, sufficiently detailed the appliances to be provided. Therefore, it could not be determined whether the contract reduction of more than \$15,000 for appliances was reasonable.

### **The City Lacked Adequate Procedures and Controls**

The weaknesses described above occurred because the City lacked adequate procedures and controls to ensure that it used Program funds for the project in accordance with Federal requirements and the City's contracts with Flint Project. The former Program manager of the City's Department of Community and Economic Development said that the City's former mayor wanted the project completed and the former director of the Department instructed staff to use funds associated with the City's existing contracts with Flint Project to complete the project.

According to the former Program manager, many employees worked on the project since the project began. However, the City could not provide a list of the employees who worked on the project. Therefore, the former Program manager could not explain why the City (1) lacked sufficient documentation to support its use of funds, (2) inappropriately drew down and disbursed funds that were not used for eligible costs in a timely manner, and (3) did not ensure that Flint Project fully complied with Federal regulations regarding the procurement of housing rehabilitation services.

### **Conclusion**

The City lacked adequate procedures and controls to ensure that it used Program funds for the project in accordance with Federal requirements and its contract with a subrecipient. As a result, it (1) inappropriately used more than \$190,000 in Program funds and (2) lacked assurance that an additional \$90,000 was used for eligible costs. Further, the U.S. Treasury paid nearly \$5,000 in unnecessary interest on nearly \$304,000 in Program funds, which the City disbursed to Flint Project-that was not expended in the required timeframe.

## Recommendations

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

- 1A. Reimburse its Program from non-Federal funds \$190,457, which the City inappropriately drew down and disbursed to Flint Project for the project.
- 1B. Support or reimburse its Program from non-Federal funds \$90,205, as appropriate, for the City's use of Program funds, which it lacked sufficient documentation to support.
- 1C. Reimburse HUD from non-Federal funds, for transmission to the U.S. Treasury, \$4,996 for the unnecessary interest the U.S. Treasury paid on the Program funds, which the City disbursed to Flint Project, that were not used for eligible costs within 15 days of being drawn down from its treasury account.
- 1D. Implement adequate procedures and controls regarding its rental rehabilitation projects to ensure that (1) it disburses Program funds in accordance with HUD's regulations and written agreements, (2) it maintains sufficient documentation to support its use of Program funds, (3) work specifications are completed that sufficiently detail the housing rehabilitation services to be provided, and (4) housing rehabilitation services are procured through free and open competition.

We also recommend that HUD's Associate General Counsel for Program Enforcement

- 1E. Pursue the appropriate administrative actions against the contractor's vice president and architectural firm's architect for inappropriately certifying that the contractor had completed its housing rehabilitation work on the project.

## Finding 2: The City Did Not Administer Its Owner-Occupied Rehabilitation Projects in Accordance With Federal Regulations and Its Own Requirements

The City did not reimburse its treasury account for Program funds drawn down and decommit additional funds for five owner-occupied rehabilitation projects that were later terminated. It also did not (1) maintain sufficient documentation to support its use of Program funds for a project, (2) ensure that a subrecipient appropriately procured housing rehabilitation services for 14 projects, and (3) accurately report in HUD's system the status of 9 projects. These weaknesses occurred because the City lacked adequate procedures and controls for its projects to ensure that Federal regulations and its standard operating procedures for subrecipients funded with Community Development Block Grant, Emergency Shelter Grant, and Program funds were appropriately followed. As a result, (1) nearly \$103,000 in Program funds was not available for eligible activities and (2) the City lacked assurance that more than \$17,000 was used appropriately. Further, HUD and the City lacked assurance that the project accomplishments were accurately reported in HUD's system.

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### **The City Did Not Reimburse Its Treasury Account for Program Funds Disbursed for Terminated Projects**

We reviewed 7 projects that the City reported in HUD's system as complete from June 1, 2009, through January 12, 2011, and the 20 projects that were open in HUD's system as of January 12, 2011. The City drew down more than \$1 million in Program funds for the 27 projects.

The City committed nearly \$103,000 and drew down nearly \$90,000 in Program funds for four of Flint Project's and one of Salem Housing Community Development Corporation's<sup>7</sup> projects that were later terminated. The five projects were for four homes. The funds were drawn down for rehabilitation expenses (\$53,738), administrative salaries (\$18,197), and soft costs (\$16,021). The following table shows the project numbers; the amount of funds committed; and the amount of funds used for rehabilitation expenses, administrative salaries, and soft costs for each project.

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<sup>7</sup> A nonprofit subrecipient

Project number	Program funds committed	Rehabilitation expenses	Administrative salaries	Soft costs	Program funds used
<b>1240/1893<sup>8</sup></b>	\$67,800	\$53,278	\$4,205	\$8,629	\$66,112
<b>2046</b>	20,000	<u>460</u>	10,706	4,714	15,880
<b>2061</b>	15,000		<u>3,286</u>	2,598	5,884
<b>2101</b>	<u>80</u>			<u>80</u>	<u>80</u>
<b>Totals</b>	<u>\$102,880</u>	<u>\$53,738</u>	<u>\$18,197</u>	<u>\$16,021</u>	<u>\$87,956</u>

The City lacked sufficient documentation to support that the remaining \$1,688 (\$89,644 - \$87,956) in Program funds was disbursed to Salem for project number 1240 and used for eligible costs.

Flint Project terminated (1) project number 1893 in May 2009 since it could not reach the homeowner to complete the housing rehabilitation work that was started by Salem and (2) project numbers 2046 and 2061 in September and July 2009, respectively, because the homeowners decided that they did not want liens placed on their properties. It also terminated project number 2101 in August 2009 due to the homeowner's failing to provide income documentation by the requested deadline. According to Flint Project's program director, in May 2009, she informed the City that Flint Project had terminated project number 1893. Further, in May 2010, Flint Project's program coordinator informed the City that it had terminated project numbers 2046, 2061, and 2101.

However, contrary to HUD's regulations at 24 CFR 92.503(b)(2) and (3), the City did not reimburse its treasury account for the \$89,644 in Program funds that it drew down for the five terminated projects (the nearly \$88,000 in Program funds used for the five projects plus the nearly \$1,700 in funds that the City lacked sufficient documentation to support). As a result of our audit, the City had transferred the \$61,903 in Program funds drawn down for project number 1240 to project number 1893 as of July 19, 2011, and canceled project number 1240 in HUD's system on September 13, 2011.

On August 31, 2012, the City agreed to Program grant reductions for the four remaining projects totaling nearly \$90,000. Therefore, HUD reduced the City's Program grants by the agreed-upon amount on January 16, 2013, and reallocated the Program funds to other participating jurisdictions through its formula allocation for Program year 2013. Further, as of April 24, 2013, the City had decommitted the \$13,236 in Program funds for project numbers 2046 (\$4,120) and 2061 (\$9,116) and canceled project numbers 1893, 2046, 2061, and 2101 in HUD's system.

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<sup>8</sup> Salem did not complete the housing rehabilitation work on the home for project number 1240. The City transferred the project to Flint Project and created project number 1893 in HUD's system to complete the housing rehabilitation work on the home for project number 1240.

**The City Lacked Sufficient Documentation To Support Its Use of More Than \$17,000 in Program Funds**

Contrary to HUD’s regulations at 24 CFR 85.20(b) and Federal regulations at appendix A, section C.1, of 2 CFR Part 225, the City could not provide sufficient documentation to support \$17,382 in Program funds that it drew down for project number 145. The City canceled project number 145 and reprogrammed the funds for project number 1747.<sup>9</sup>

**The City Did Not Accurately Report in HUD’s System the Status of Projects**

The City did not accurately report the status of nine rehabilitation projects in HUD’s system as required by 24 CFR 92.2 and 92.502(d)(1). As of January 12, 2011, it had not reported seven projects (project numbers 145, 1244, 1747, 1891, 1892, 1974, and 1975)<sup>10</sup> as completed in HUD’s system, although Flint Project completed the projects from January 2007 through April 2010. Further, it reported another two projects (project numbers 1236 and 1240) as completed on February 1, 2007, although neither Salem nor the City had completed the projects as of January 12, 2011.

As a result of our audit, the City canceled project numbers 145, 1240, and 1244 on September 13, 2011, and project number 1892 on April 13, 2012, and reported as completed in HUD’s system project number 1747 on October 13, 2011, and project numbers 1891, 1974, and 1975 on May 26, 2012.

**The City Did Not Ensure That a Subrecipient Procured Housing Rehabilitation Services Through Full and Open Competition**

Contrary to HUD’s regulations at 24 CFR 84.43, Federal regulations at 2 CFR 215.43, and the City’s standard operating procedures, the City did not ensure that Flint Project procured housing rehabilitation services through full and open competition. It did not ensure that Flint Project obtained an adequate number of price or bid quotations from construction contractors for 14 of the projects reviewed. Flint Project solicited bids from only 2 construction contractors for 12 of the projects. Further, Flint Project obtained only one bid for six projects and

<sup>9</sup> The City inappropriately entered data into HUD’s system for a project under project numbers 145 and 1747.

<sup>10</sup> The City inappropriately entered data into HUD’s system for a project under project numbers 1244 and 1891.

two bids for another eight projects although the City’s standard operating procedures required subrecipients to obtain at least three bids. In addition, it did not advertise for bids in the Flint Journal for five projects for which the rehabilitation contracts were over \$25,000. The following table shows the project numbers and the number of bids obtained for each project and the projects for which Flint Project did not advertise for bids.

Project number(s) <sup>11</sup>	Number of bids	No advertisement
1747	2	
1748 and 2233	2	X
1797	2	
1798	1	
1891 and 2129	1	X
1892 and 2130	2	X
1894 and 2131	1	X
1895	2	
1903	2	
1960	1	
1974	2	
1976	2	
2041	1	
2050	1	X

### The City Lacked Adequate Procedures and Controls

The weaknesses described above occurred because the City lacked adequate procedures and controls for its projects to ensure that it complied with Federal regulations and its standard operating procedures.

The former director of the City’s Department of Community and Economic Development said that she did not know why the City (1) did not reimburse its treasury account for Program funds drawn down and decommit Program funds for the terminated projects, (2) did not accurately report in HUD’s system the status of projects, and (3) did not ensure that the subrecipient procured housing rehabilitation services through full and open competition. However, regarding the procurement of services, the City will no longer use subrecipients for rehabilitation projects.

<sup>11</sup> The City inappropriately entered data into HUD’s system for four projects under four different project numbers. As a result of our audit, the City canceled project numbers 1892, 1894, 2129, and 2233 and reprogrammed the applicable Program funds to project numbers 2130, 2131, 1891, and 1748, respectively.

The Department's former Program manager said that the Department had moved its offices many times and had not been able to locate all of the supporting documentation for some of the older projects.

## Conclusion

The City lacked adequate procedures and controls for its projects to ensure that it complied with Federal regulations and its standard operating procedures. As a result, (1) nearly \$103,000 in Program funds was not available for eligible activities and (2) the City lacked assurance that more than \$17,000 was used appropriately. Further, HUD and the City lacked assurance that the project accomplishments were accurately reported in HUD's system.

## Recommendations

We recommend that the Director of HUD's Detroit Office of Community Planning and Development

- 2A. Ensure that participating jurisdictions use the \$89,644 in Program funds, reflecting HUD's reduction of the City's Program grants and reallocation of the funds to other participating jurisdictions, only for eligible costs.
- 2B. Ensure that the City uses the \$13,236 in Program funds, which it decommitted in HUD's system for project numbers 2046 and 2061, for eligible costs.

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

- 2C. Support or reimburse its Program \$17,382 for the funds used for unsupported costs associated with project numbers 145 and 1747.
- 2D. Cancel rehabilitation project number 1236 in HUD's system.
- 2E. Implement adequate procedures and controls for its projects to ensure that Program funds are used in accordance with Federal requirements, accomplishments are accurately reported in HUD's system, and housing rehabilitation services are procured through full and open competition.

## SCOPE AND METHODOLOGY

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We performed our audit work from October 2010 through August 2013 at the City's offices located at 1101 South Saginaw Road, Flint, MI, and HUD's Chicago regional office located at 77 West Jackson Boulevard, Chicago, IL. The audit covered the period July 2009 through July 2010 and was expanded as determined necessary.

To accomplish our objectives, we reviewed

- Applicable laws; Federal regulations at 2 CFR Parts 215, 225, and 230; HUD's regulations at 24 CFR Parts 84, 85, and 92; HUD's "Building HOME: A Program Primer"; Office of Community Planning and Development Notices 96-9, 97-11, 01-13, and 06-01; and HUD's HomeFires, volume 5, number 2, and volume 6, number 1.
- The City's accounting records, annual audited financial statements for fiscal years 2009 and 2010, data from HUD's system, activity files, computerized databases, policies, procedures, consolidated plans from 2005 through 2016, action plans for 2008 through 2010, consolidated annual performance and evaluation reports for 2009 through 2011, and organizational chart.
- HUD's files for the City.

We also interviewed the City's employees, Flint Project's director, Salem's director, and HUD's staff.

### **Finding 1**

We reviewed a rental rehabilitation project for which the City drew down nearly \$458,000 in Program funds for Flint Project from October 2007 through October 2012. The project was selected to determine whether the City complied with Federal requirements in its use of Program funds.

### **Finding 2**

We reviewed the 7 owner-occupied rehabilitation projects the City reported in HUD's system as complete from June 1, 2009, through January 12, 2011, and the 20 projects that were open in HUD's system as of January 12, 2011. The City drew down more than \$1 million in Program funds from April 1996 through November 2012 for the 27 projects. The projects were selected to determine whether the City complied with Federal requirements in its use of Program funds.

We relied in part on data in HUD's system. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# INTERNAL CONTROLS

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Internal control is 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.

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## Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with 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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

The City lacked adequate procedures and controls to ensure that

- Federal requirements and its Program contract with a subrecipient were followed in the (1) use of Program funds and (2) procurement of housing rehabilitation services for a rental rehabilitation project (see finding 1).
- Federal regulations and its standard operating procedures were followed in the (1) reimbursement of the City's treasury account for Program funds drawn down and the decommitment of Program funds for terminated owner-occupied rehabilitation projects, (2) reporting on the status of projects in HUD's system, and (3) procurement of housing rehabilitation services for projects (see finding 2).

## 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	\$190,457		
1B		\$90,205	
1C	<u>4,996</u>		
2A			\$89,644
2B			<u>13,236</u>
2C		<u>17,382</u>	
Totals	<u>\$195,453</u>	<u>\$107,587</u>	<u>\$102,880</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, 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, implementation of our recommendations will ensure that Program funds are used according to HUD's regulations.


# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION


### Ref to OIG Evaluation

### Auditee Comments

Comment 1



OFFICE OF THE CITY ADMINISTRATOR  
Department of Community and Economic Development



**Tracy B. Atkinson**  
Chief Officer

**Michael K. Brown**  
Emergency Manager

**Dayne Walling**  
Mayor

September 20, 2013

United States Department of Housing and Urban Development  
Office of the Inspector General for Audit, Region V  
Ralph H. Metcalfe Federal Building  
77 West Jackson Boulevard, Suite 2201  
Chicago, Illinois 60604

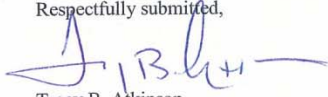
Attn: Brent G. Bowen, Assistant Regional Inspector General for Audit

RE: Office of Inspector General's Draft Audit  
HOME Investment Partnerships Program  
Audit Report Number: 2013-CH-100X

Responses to the August 23, 2013 Draft Outline

This is a response to the Third Phase of the OIG Audit which was provided to the City of Flint during March of 2011. This response to the draft outline was due within ten days of its receipt on Friday, September 13, 2013.

Respectfully submitted,



Tracy B. Atkinson  
Chief Officer

CITY OF FLINT 1101 SAGINAW ST., ROOM N 102 FLINT MICHIGAN 48502  
OFFICE: 810.766.7436 FAX: 810.766.7351

**Ref to OIG Evaluation**

**Auditee Comments**

Comments 2, 3,  
and 4

Audit Finding 1: The City Did Not Ensure That Its Use of Program Funds for a Rental Rehabilitation Project Complied With Its Contract With a Subrecipient and Federal Requirements:

1A. Reimburse its Program from non-Federal funds \$190,457.00, which the City inappropriately drew down and disbursed to Flint Project for the project.

*The City of Flint respectfully disagrees with this finding. The City did not inappropriately draw down and disburse Program funds to FNIPP on June 30, 2008. This Finding is related to the 2007 contract with Flint NIPP to complete a six unit rental rehabilitation project. The OIG asserts that funds were drawn from the City of Flint's HUD Treasury account prior to FNIPP's expenditure of funds. On Page 7 of the City of Flint's Department of Community and Economic Development Standard Operating Procedures for Sub-recipient agencies funded with CDBG, HOME and ESG Grant funds (revised June 2008 and the final version is dated April 2013) states:*

Reporting and Payment Process

- (1) For the HOME program, the agency must submit all set-up and completion reports to the assigned Program Specialist. These reports must be received before any reimbursements can be authorized.
- (2) Reimbursement requests must be for incurred costs, not projected costs.
- (3) All subrecipients shall utilize the attached revised CDBG, ESG, and HOME Financial Report for all reimbursement requests. No alterations or deletions may be made to the form. Reimbursement requests must be accompanied by appropriate documentation, including (but not limited to) invoices, bills, and receipts. HOME reimbursement requests must also be accompanied by City Project Tracking Report (for project cost only) which lists project number, committed amount, adjustments CDBG ESG, and HOME Performance and Evaluation Reports requested amount and remaining balance. Soft costs must be appropriately allocated to each project.

Comment 2

*The City respectfully requests this finding be closed.*

Comment 5

Comment 6

1B. Support or reimburse its Program from non-Federal funds \$90,205.00 as appropriate, for the City's use of Program Funds, which it lacked sufficient documentation to support.

*The City of Flint disagrees with this finding. The City of Flint's Finance Department was able to provide 32 of the 71 requested cancelled checks. The 32 checks had complete check numbers from the OIG. The remaining 39 numbers provided by the OIG lacked sufficient information for the Finance Department to locate the transaction through the banking system. Sixteen of the items were three, four and five digit numbers with dates from September 2009 through December 2010. The OIG also provided nineteen, five digit, numbers that began with the letter "R" and check dates beginning in March of 2003 and ending in December of the same year. As communicated with the OIG, the Finance Department would need more descriptive information to identify the transactions. The City of Flint asks that the OIG provide the additional information in order for the Finance Department to secure the appropriate documentation for the \$90,205.00 expenses.*

Comments 5  
and 6

CITY OF FLINT 1101 SAGINAW ST., ROOM N 102 FLINT MICHIGAN 48502  
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**Ref to OIG Evaluation**

**Auditee Comments**

Comment 4

1C. Reimburse HUD from non-Federal funds for transmission to the U.S. Treasury, \$4,998 for the unnecessary interest the U.S. Treasury paid on the Program funds, which the City disbursed to Flint Project, that were not used for eligible costs within 15 days of being drawn down from its treasury account.

*The City disagrees with this finding. As stated, in the City's response to Finding 1A were no advances to Flint NIPP thus there were no unnecessary interest charges to the US Treasury in the amount of \$4,998.00 due to advance payments. The City respectfully asks that this finding be closed.*

Comment 7

1D. Implement adequate procedures and controls regarding its rental rehabilitation projects to ensure that (1) it disburses Program funds in accordance with HUD's regulations and written agreements, (2) it maintains sufficient documentation to support its use of Program funds, (3) work specifications are completed that sufficiently detail the housing rehabilitation services to be provided, and (4) housing rehabilitation services are procured through free and open competition.

*The City of Flint Department of Community and Economic Development staff has revised its HOME policies and procedures. The last revision was completed in February 2012. The policies and procedures outline the procedures and controls for rental rehabilitation projects. Following the review of the attached policies and procedures, the City of Flint respectfully asks that this Finding be closed with concurrence.*

Comment 8

1E. Pursue the appropriate administrative actions against the contractor's vice president and architectural firm's architect for inappropriately certifying that the contractor had completed its housing rehabilitation work on the project.

*The City of Flint has shared the information related to Finding 1E with FNIPP. The City of Flint respectfully requests this finding be closed.*

Comments 4 and 9

**Audit Finding 2:** The City Did Administer Its Owner-Occupied Rehabilitation Projects in Accordance With Federal Regulations and Its Own Requirements:

The OIG conducted its interviews with staff during the 2010 and 2011 administration.

Comments 10 and 11

2A. Ensure that participating jurisdictions use the \$89,644 in Program funds, reflecting HUD reduction of the City's Program grants and reallocation of the funds to other participating jurisdictions, only for eligible costs.

*The City respectfully requests this Finding be closed. The balance of the f*

2B. Ensure that the City uses the \$13,236 in Program funds, which it decommitted in HUD's system for project numbers 2046 and 2061, for eligible costs.

*On March 9, 2012 and June 15, 2012, EM Resolutions 2012EM165 and 2012EM306A respectfully approved the City of Flint to reimburse the HUD Treasury Account for a total of \$92,000.00 of non-federal funds for cancelled and incomplete projects that would not be completed. The City respectfully requests this Finding be closed.*

Comments 10 and 12

CITY OF FLINT 1101 SAGINAW ST., ROOM N 102 FLINT MICHIGAN 48502  
OFFICE: 810.766.7436 FAX: 810.766.7351

**Ref to OIG Evaluation**

**Auditee Comments**

Comments 13  
and 14  
Comments 6  
and 14

2C. Support or reimburse its Program \$17,382 for the funds used for unsupported costs associated with project numbers 145 and 1747.

*The City of Flint disagrees with this finding. The City of Flint Finance Department was able to provide 32 of the 71 requested cancel checks. The 32 checks had complete check numbers from the OIG. The remaining 39 numbers provided by the OIG lacked sufficient information for the Finance Department to locate the transaction through the banking system. Sixteen of the items were three, four and five digit numbers with dates from September 2009 through December 2010. The OIG also provided nineteen, five digit, numbers that began with the letter "R" and check dates beginning in March of 2003 and ending in December of the same year. As communicated with the OIG, the Finance Department would need more descriptive information to identify the transactions. The City of Flint asks that the OIG provide the additional information in order for the Finance Department to secure the appropriate documentation for the \$17,382.00 expenses.*

Comments 13  
and 14

2D. Cancel rehabilitation project number 1236 in HUD's system.

*Was one of the duplicate activities identified. The activity should be cancelled and funding should be moved and accomplishments reported in Activity number 2131.*

Comment 15

*The City of Flint submits that this project was cancelled because it was one of the duplicate activities addressed during Phase I of this Audit. Activity number 1236 is associated with Activity number 2131. The City of Flint asks that this Finding was closed.*

2E. Implement adequate procedures and controls for its projects to ensure that Program funds are used in accordance with Federal requirements, accomplishments are accurately reported in HUD's system, and housing rehabilitation services are procured through full and open competition.

Comment 16

*The City of Flint Department of Community and Economic Development staff has revised its HOME policies and procedures. The last revision was completed in February 2012. The policies and procedures outline the procedures and controls for use of Program funds, reporting of accomplishments and procurement. Following the review of the attached policies and procedures and Standard Operating Procedures, the City of Flint respectfully asks that this Finding be closed with concurrence.*

Comment 17



## OIG's Evaluation of Auditee Comments

- Comment 1** We provided the chief officer of the City's Department of Community and Economic Development the discussion draft audit report for our audit of the City's Program on September 13, 2013.
- Comment 2** Contrary to HUD's regulations at 24 CFR 92.504 and the City's contract with Flint Project, the City inappropriately drew down and disbursed more than \$190,000 in Program funds to Flint Project to pay for housing rehabilitation services for a six-unit project. The contract stated that the funds were to be used to provide housing rehabilitation services for 18 single-family rental rehabilitation projects.
- Comment 3** The recommendation that the Director of HUD's Detroit Office of Community Planning and Development require the City to reimburse its Program from non-Federal funds more than \$190,000, which the City inappropriately drew down and disbursed to Flint Project for the project, does not concern the City's drawing down and disbursement of nearly \$304,000 in Program funds to Flint Project more than 15 days before the funds were used.
- Comment 4** Contrary to HUD's regulations at 24 CFR 92.502(c)(2) and the City's contracts with Flint Project, the City inappropriately drew down and disbursed nearly \$304,000 in Program funds to Flint Project more than 15 days before the funds were used. Although, the City drew down the funds from its treasury account on June 30, 2008, the funds were not used for eligible costs until 31 to 302 days later. Therefore, the U.S. Treasury paid nearly \$5,000 in unnecessary interest on the funds.
- Comment 5** The City was unable to support its use of more than \$90,000 in Program funds that was drawn down for the project. It lacked sufficient documentation to support that (1) more than \$4,000 in Program funds disbursed to Flint Project was used for eligible costs and (2) nearly \$86,000 in Program funds was disbursed to Flint Project and used for eligible costs as required by HUD's regulations at 24 CFR 85.20(b) and Federal regulations at appendix A, section C.1, of 2 CFR Part 225.
- Comment 6** The check numbers that we included in our request for canceled checks was based on the information that we obtained from the City's files. We also requested documentation to support the disbursements of Program funds it drew down for the projects. The City did not provide sufficient documentation to support the disbursements.
- Comment 7** The Program policies and procedures manual that the City provided was not dated and the section for rental rehabilitation was blank. Further, the table of contents stated that (1) appendix G1 contained annual compliance procedures for monitoring Program units, (2) appendix G2 contained a rental project file

checklist, (3) appendix G3 contained a Program rental compliance review checklist, and (4) appendix G4 contained a tenant income verification and tracking report. However, appendixes G1 and G2 contained the first-time homebuyers application review process and downpayment assistance program administration procedures, respectively, and the manual did not include appendixes G3 and G4.

- Comment 8** The City lacked adequate procedures and controls to ensure that it used Program funds for the project in accordance with Federal requirements and the City's contracts with Flint Project.
- Comment 9** In an application and certificate for payment, the contractor's vice president and an architect from an architectural firm that was hired by Flint Project inappropriately certified on June 24 and June 25, 2008, respectively, that the contractor had completed its housing rehabilitation work on the project. The application and certificate for payment was submitted with Flint Project's payment request to the City.
- Comment 10** Contrary to HUD's regulations at 24 CFR 92.503(b)(2) and (3), the City did not reimburse its treasury account nearly \$90,000 in Program funds that it drew down for the five terminated owner-occupied rehabilitation projects. As a result of our audit, the City had transferred nearly \$62,000 in Program funds drawn down for project number 1240 to project number 1893 as of July 19, 2011, and canceled project number 1240 in HUD's system on September 13, 2011.
- Comment 11** On August 31, 2012, the City agreed to Program grant reductions for the four remaining projects totaling nearly \$90,000. Therefore, HUD reduced the City's Program grants by the agreed-upon amount on January 16, 2013, and reallocated the Program funds to other participating jurisdictions through its formula allocation for Program year 2013.
- Comment 12** As of April 24, 2013, the City had decommitted more than \$13,000 in Program funds for project numbers 2046 (more than \$4,000) and 2061 (more than \$9,000) and canceled the project numbers in HUD's system.
- Comment 13** Contrary to HUD's regulations at 24 CFR 85.20(b) and Federal regulations at appendix A, section C.1, of 2 CFR Part 225, the City could not provide sufficient documentation to support more than \$17,000 in Program funds that it drew down for project number 145. The City canceled project number 145 and reprogrammed the funds for project number 1747.
- Comment 14** Checks for project number 145 were not included in our request for canceled checks. The Program manager assistant of the City's Department of Community and Economic Development said that she was unable to locate the project file and accounting records for project number 145.

- Comment 15**   OIG audit report number 2009-CH-1020 did not include project number 1236 as a duplicate activity. However, finding 3 in OIG audit report number 2011-CH-1001 did include project number 1236 as one of the activities for which the City inappropriately entered activity data into HUD’s system for 62 properties under 2 or more activity numbers for a total of 130 activities. We recommended that the Acting Director of HUD’s Detroit Office of Community Planning and Development require the City to cancel 69 of the 130 activities in which it inappropriately entered activity data into HUD’s system for 62 properties under 2 or more activity numbers. We did not specifically recommend that Project number 1236 be canceled. In finding 2 of this report, we state that the City reported project number 1236 as completed on February 1, 2007, although neither Salem nor the City had completed the project as of January 12, 2011. As of August 27, 2013, the status in HUD’s system for project number 1236 was completed.
- Comment 16**   The Program policies and procedures manual that the City provided was not dated and the section for owner-occupied rehabilitation does not appear to be finalized. Further, the table of contents stated that appendix F1 contained owner-occupied production procedures. However, appendix F1 was blank.
- Comment 17**   The City lacked adequate procedures and controls for its projects to ensure that it complied with Federal regulations and its own standard operating procedures.

## Appendix C

### APPLICABLE REQUIREMENTS

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#### Findings 1 and 2

HUD's regulations at 24 CFR 84.27 state that allowable costs for nonprofit organizations will be determined in accordance with cost principles contained in Office of Management and Budget Circular A-122. Section 24 CFR 84.43 states that all procurement transactions must be conducted in a manner that provides, to the maximum extent possible, free and open competition. Awards should be made to the bidder or offeror with the bid or offer that is responsive to the solicitation and is most advantageous to the recipient, with price, quality, and other factors considered. Solicitations must clearly set forth all requirements that the bidder or offeror must fulfill to be evaluated by the recipient.

HUD's regulations at 24 CFR 85.20(b)(2) require grantees and subgrantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant and subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.

HUD's regulations at 24 CFR 85.22(b) state that allowable costs for State, local, or Indian tribal governments will be determined in accordance with cost principles contained in Office of Management and Budget Circular A-87 and private nonprofit organizations will be determined in accordance with cost principles contained in Office of Management and Budget Circular A-122.

HUD's regulations at 24 CFR 92.504(a) state that a participating jurisdiction is responsible for managing the day-to-day operations of its Program, ensuring that Program funds are used in accordance with all Program requirements and written agreements, and taking appropriate action when performance problems arise. The use of subrecipients or contractors does not relieve the participating jurisdiction of this responsibility.

HUD's regulations at 24 CFR 92.505(a) state that the requirements of Office of Management and Budget Circular A-87 and sections 85.20 and 85.22 of 24 CFR Part 85 are applicable to a participating jurisdiction that is a government entity. Section 92.505(b) states that the requirements of Office of Management and Budget Circular A-122 and 24 CFR 84.27 are applicable to nongovernmental nonprofit subrecipients that receive Program funds.

Federal regulations at 2 CFR 215.21(b)(6)<sup>12</sup> state that recipients' financial management systems must include written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles

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<sup>12</sup> Office of Management and Budget Circular A-110 was relocated to 2 CFR Part 215.

and the terms and conditions of the award and accounting records, including cost accounting records, that are supported by source documentation. Section 215.40 states that the procurement standards in sections 215.41 through 215.48 are to be used by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property, and other services with Federal funds. Section 215.43 states that all procurement transactions must be conducted in a manner to provide, to the maximum extent possible, open and free competition.

Appendix A, section C.1, of Federal regulations at 2 CFR Part 225<sup>13</sup> requires all costs to be necessary, 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.

Appendix A, section A.2, of Federal regulations at 2 CFR Part 230<sup>14</sup> requires all costs to be reasonable and adequately documented. Section A.3 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 costs. In determining the reasonableness of a given cost, consideration should be given to whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization; its members, employees, and clients; the public at large; and the Federal Government.

## **Finding 1**

HUD's regulations at 24 CFR 84.44 state that all recipients must establish written procurement procedures. The procedures should provide, at a minimum, that solicitations for goods and services should provide for a clear and accurate description of the technical requirements for the material, product, or service to be procured and a description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.

HUD's regulations at 24 CFR 92.502(c)(2) state that Program funds drawn down from a participating jurisdiction's treasury account must be expended for eligible costs within 15 days. Any interest earned on the Program funds within the 15-day period may be retained by the participating jurisdiction as Program funds. Any Program funds that are drawn down and not expended for eligible costs within 15 days must be returned to HUD for deposit in the participating jurisdiction's treasury account. Interest earned on Program funds after the 15 days belongs to the United States and must be remitted to HUD at least quarterly, except that a participating jurisdiction may retain interest up to \$100 per year for administrative expenses.

HUD's regulations at 24 CFR 92.504(b) state that before disbursing any Program funds to any entity, the participating jurisdiction must enter into a written agreement with that entity. Section 92.504(c)(2)(i) states that the written agreement between the participating jurisdiction and the subrecipient must describe the use of the Program funds, including the tasks to be performed, a

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<sup>13</sup> Office of Management and Budget Circular A-87 was relocated to 2 CFR Part 225.

<sup>14</sup> Office of Management and Budget Circular A-122 was relocated to 2 CFR Part 230.

schedule for completing the tasks, a budget, and the period of the agreement. These items must be in sufficient detail to provide a sound basis for the participating jurisdiction to effectively monitor performance under the agreement.

HUD's regulations at 24 CFR 92.505(b) state that the requirements of sections 84.40 through 84.48 of 24 CFR Part 84 are applicable to nongovernmental nonprofit subrecipients that receive Program funds.

HUD's regulations at 24 CFR 92.508(a) state that a participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether it has met the requirements of 24 CFR Part 92. The participating jurisdiction must maintain records that demonstrate compliance with the written agreements required by 24 CFR 92.504.

Chapter 4 of HUD's "On Solid Ground – A Primer for Construction Managers on Designing and Managing a Effective Program," dated October 2002, states that specifications refer to the detailed written requirements for materials, equipment, constructions systems, standards, and workmanship. Specifications are included in the bid packages used to solicit contractors' bids and are the benchmark against which work is evaluated and compensated.

The City's Program contract number 07-037, dated February 12, 2007, with Flint Project stated that the City was providing Flint Project \$150,000 in Program funds to provide housing rehabilitation services for a six-unit rental rehabilitation project. Paragraph I.A.3. of the contract required Flint Project to reevaluate the work specifications by the end of the first quarter of the contract. Paragraph II stated that Flint Project would begin administering the project by February 12, 2007, and complete the housing rehabilitation services by February 11, 2008. Paragraph V.O. required Flint Project to obey and abide by all laws, rules, and regulations of the Federal Government, State of Michigan, Genessee County, and the City. Paragraph VI.A.1. stated that Flint Project agreed to comply with section 21 of Office of Management and Budget Circular A-110 and maintain the necessary source documentation for all costs incurred. Paragraph VI.C.4. stated that the City would make payments for eligible expenses incurred by Flint Project, not to exceed actual cash requirements. The City executed change order number 1 for Program contract number 07-037. The undated change order increased the Program funds to \$200,000 for the project. On May 12, 2008, the City executed change order number 2 for Program contract number 07-037. The change order revised the date on which Flint Project had to complete the housing rehabilitation services for the project to June 30, 2009.

The City's Program contract number 07-077, dated July 10, 2007, with Flint Project stated that the City would provide Flint Project \$200,000 in Program funds to provide housing rehabilitation services for 18 single-family rental rehabilitation projects. Paragraph 2 stated that Flint Project could not request disbursement of Program funds under the agreement until the funds were needed for payment of eligible costs. Attachment A, paragraph 4, of the contract, required Flint Project to comply with the applicable requirements of Office of Management and Budget Circular A-110.

Page 7 of the City's standard operating procedures for subrecipients funded with Community Development Block Grant, Emergency Shelter Grant, and Program funds, dated June 6, 2008, required that reimbursement requests be for incurred costs rather than projected costs.

Section 1300.00, paragraph N, of Flint Project's internal program guidelines, dated July 10, 2007; June 17, 2008; and February 3, 2010, states that Flint Project's program manager will assign a specification writer and request specifications and a cost estimate. Paragraph P states that the specification writer will prepare a computerized work writeup and cost estimate. Paragraph R states that Flint Project's program director will determine whether the work items in the work writeup conform to purposes of the grant. Paragraph S states that if the project is funded by the City, Flint Project's program coordinator will set an appointment with the City's Department to review the specifications and cost estimate and give approval to put out to bid. Paragraph T states that a viable bid must be within 15 percent (plus \$201) of the specification writer's cost estimate. If it appears that the specification writer missed something, the program director will meet with the specification writer to review the specification writer's costs. If the specification writer's costs are correct, the job is put out for bid again if the costs are over 15 percent (plus \$201) of the cost estimate. Paragraph AA states that the program coordinator will hold the preconstruction meeting with the homeowner, contractor, specification writer, and City's Department to review the specifications and to establish and document the date for the contractor to begin construction work.

## **Finding 2**

HUD's regulations at 24 CFR 92.2 state that project completion means that all necessary title transfer requirements and construction work have been performed; the project complies with the requirements of 24 CFR Part 92, including the property standards under 24 CFR 92.251; the final drawdown has been disbursed for the project; and the project completion information has been entered into HUD's system.

HUD's regulations at 24 CFR 92.203(a) state that a participating jurisdiction must determine whether each household is income eligible by determining the household's annual income. Section 92.203(a)(2) states that a participating jurisdiction must determine households' annual income by examining source documentation evidencing households' annual income. Section 92.203(d)(1) states that a participating jurisdiction must calculate a household's annual income by projecting the prevailing rate of the household's income at the time the participating jurisdiction determines the household to be income eligible. Section 92.203(d)(2) states that the participating jurisdiction is not required to reexamine a household's annual income at the time the Program assistance is provided unless more than 6 months has elapsed since the participating jurisdiction determined that the household qualified as income eligible.

HUD's regulations at 24 CFR 92.502(d)(1) state that complete project completion information must be entered into HUD's system or otherwise provided within 120 days of the final project drawdown. If satisfactory activity completion information is not provided, HUD may suspend further activity setups or take other corrective actions.

HUD's regulations at 24 CFR 92.503(b)(2) state that any Program funds invested in a project that is terminated before completion, either voluntarily or otherwise, must be repaid by a participating jurisdiction in accordance with section 92.503 (b)(3). Section 92.503(b)(3) states that if the Program funds were disbursed from the participating jurisdiction's treasury account, the funds must be repaid to the participating jurisdiction's treasury account. If the Program funds were disbursed from the participating jurisdiction's HOME trust fund local account, they must be repaid to the participating jurisdiction's local account.

HUD's regulations at 24 CFR 92.508(a) state that a participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether it has met the requirements of 24 CFR Part 92. The participating jurisdiction must maintain records that demonstrate

- Each household is income eligible in accordance with 24 CFR 92.203 and
- Compliance with the applicable uniform administrative requirements at 24 CFR 92.505.

The City's Program contracts with Flint Project required Flint Project to obey and abide by all of the laws, rules, and regulations of the Federal government, the State of Michigan, Genesee County, and the City of Flint applicable to the performance of the agreement. Further, the contracts stated that Flint Project agreed to follow the requirements in Office of Management and Budget Circular A-110 and City-endorsed requirements regarding the procurement of goods and services using Program funds. All procurement transactions were required to be conducted in a manner that provided maximum open and free competition consistent with applicable requirements. Procurement procedures were not to restrict or eliminate competition. Page 2 of the City's standard operating procedures for subrecipients funded with Community Development Block Grant, Emergency Shelter Grant, and Program funds, dated June 6, 2008, required all procurement activities to comply with all requirements contained in section 40 of Office of Management and Budget Circular A-110. Page 4 stated that for rehabilitation and new construction contracts over \$25,000, bids were to be advertised in the legal notices section of the Flint Journal, at a minimum, and the bids were required to be advertised at least 5 days before the due date of the bids. The bid advertisement was required to be published at least 1 weekend day. Page 5 required a subrecipient to obtain at least three compliant bids for each procurement transaction.