



City of Colorado Springs, CO

Community Development Block Grant



To: Renee Ryles, Acting Director, Office of Community Planning and Development,
DOF

//signed//

From: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

Subject: The City Used Grant Funds for Unsupported Salary and Project Costs and Did
Not Properly Complete Environmental Reviews of Its Projects

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 Colorado Springs, CO's Community Development Block Grant 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 913-551-5870.



Audit Report Number: 2015-DE-1002

Date: June 30, 2015

The City Used Grant Funds for Unsupported Salary and Project Costs and Did Not Properly Complete Environmental Reviews of Its Projects

Highlights

What We Audited and Why

We audited the City of Colorado Springs' Community Initiatives and Economic Vitality Division based upon findings identified in U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, memorandum number 2014-DE-1802. Our audit objective was to determine whether the City used its grant funds for eligible project costs and performed environmental reviews of its projects.

What We Found

The City used grant funds for unsupported salary and project costs. It could not support its Community Development Block Grant (CDBG) salaries from 2009 to 2013 totaling more than \$3.8 million and could not support any expenditures for a 2011 capital improvement project totaling more than \$67,000.

Additionally, the City did not properly complete environmental reviews of its projects. It did not document the exempt status for its human service projects and did not complete a full environmental review of 22 of its non-human service projects totaling more than \$3.1 million.

What We Recommend

We recommend that the Director of the Denver Office of Community Planning and Development require the City to (1) provide support for more than \$3.8 million in unsupported salary costs or reimburse HUD from non-Federal funds any portion of that amount that it cannot support; (2) provide support for more than \$67,000 in unsupported project costs or reimburse HUD from non-Federal funds any portion of that amount that it cannot support; (3) develop and implement a detailed payroll tracking system to ensure that only costs incurred in administering the CDBG program are charged to the CDBG grants; (4) develop and implement a system to track its project files; (5) develop and implement detailed policies and procedures to ensure that the City complies with HUD environmental review requirements; and (6) provide support for the 22 non-human service CDBG projects, showing that each project was either exempt or complied with environmental requirements and for any portion of the more than \$3.1 million not supported, the City should reimburse HUD from non-Federal funds.

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Background and Objective

The City of Colorado Springs, CO's Housing Development Division administers the City's Affordable Housing, Capital Improvement, Housing Rehabilitation, and Human Service Funding programs. The Division is located within the Office of Economic Vitality, which reports to the mayor's office. The Division's main offices are located at 30 South Nevada Avenue, Suite 604, Colorado Springs, CO.

The Division's mission is to provide oversight and administration of Federal and local programs through the development of partnerships, preservation of neighborhoods, affordable housing development and preservation, and stimulating economic revitalization.

For fiscal years 2009 through 2013, the City received more than \$12 million in Community Development Block Grant (CDBG) funds. In administering its Federal grants, the City must follow Federal regulations, including those in the Code of Federal Regulations, Office of Management and Budget circulars, U.S. Department of Housing and Urban Development (HUD) handbooks, and HUD's policies and procedures.

On September 30, 2014, the Office of Inspector General (OIG) issued memorandum number 2014-DE-1802, which substantiated complaint allegations related to the City's HOME Investment Partnerships Program and CDBG program. Specifically, the memorandum substantiated allegations related to the City's failure to report CDBG program income in a timely manner and its improper charging of program and administrative costs.

Our audit objective was to determine whether the City used its grant funds for eligible project costs and performed environmental reviews of its projects.

Results of Audit

Finding 1: The City Used Grant Funds for Unsupported Salary and Project Costs

The City used grant funds for unsupported salary and project costs. This occurred because the City did not have a payroll system that tracked actual time spent on different activities and did not have a system in place to track its project files. As a result, HUD could not be assured that nearly \$3.9 million was used to administer the City's CDBG projects.

The City Used Grant Funds for Unsupported Costs

The City used grant funds for unsupported salary and project costs. It could not support its CDBG salaries from 2009 to 2013 and could not support any expenditures for a 2011 capital improvement project. Federal regulations at 24 CFR (Code of Federal Regulations) 85.20(b)(6) require accounting records to be supported with source documentation.

During the period 2009 through 2013, the City could not support its salaries of more than \$3.8 million. Specifically, the City did not have detailed timesheets, payroll logs, attendance records, or other documentation to support the salaries. It also was not able to explain why it charged the amounts charged to CDBG salary costs.

The table below shows the salary year, staff salaries for the year, and total unsupported salary cost.

Year	Staff salaries
2009	\$26,282.89 per pay period x 26 pay periods = \$683,355
2010	\$796,309
2011	\$796,308
2012	\$796,308
2013	\$30,066.82 per pay period x 26 pay periods = \$781,737
Total:	\$3,854,017

In addition, the City did not maintain records for one project. It was unable to provide the file associated with the Capital Improvements – Westside CDBG project. This project was funded for more than \$67,000 and completed on September 16, 2011.

The City Lacked a Payroll System and Project Records

The City lacked a payroll system that tracked actual time spent on different activities and did not have other documentation to support its salary costs charged to individual grants. Further, it did not have a system in place to track its project files.

The City Had No Assurance That Nearly \$3.9 Million Was Used To Administer CDBG Projects

HUD lacked assurance that the City used more than \$3.8 million to administer its CDBG projects and used more than \$67,000 to benefit eligible CDBG recipients.

Recommendations

We recommend that the Director of the Denver Office of Community Planning and Development require the City to

- 1A. Provide support for the \$3,854,017 in unsupported salary costs or reimburse HUD from non-Federal funds any portion of that amount that it cannot support.
- 1B. Provide support for the \$67,209 in unsupported project costs or reimburse HUD from non-Federal funds any portion of that amount that it cannot support.
- 1C. Develop and implement a detailed payroll tracking system to ensure that only costs incurred in administering the CDBG program are charged to the CDBG grants.
- 1D. Develop and implement a system to track its project files.

Finding 2: The City Did Not Comply With Environmental Review Requirements

The City did not properly complete environmental reviews of its projects. This occurred because the City did not understand HUD environmental review requirements and lacked detailed policies and procedures to ensure compliance with all applicable environmental review requirements. As a result, the City and HUD lacked assurance that the City's CDBG projects complied with environmental standards.

The City Did Not Comply With Environmental Review Requirements

The City did not properly complete environmental reviews of its projects. It did not document the exempt status for its human service projects and did not complete a full environmental review of 22 of its non-human service projects.

Federal regulations at 24 CFR 58.38 require the City to maintain a written record of the environmental review undertaken for each project. The environmental review record must contain all required environmental review documents, public notices, and written determinations or environmental findings as evidence of review, decision making, and actions pertaining to a particular project of a recipient.

During the period 2009 through 2013, the City did not complete any environmental reviews of 83 human service projects. These completed projects would have been exempt or categorically exempt under 24 CFR 58.34 and 24 CFR 58.35; however, the City did not document the exempt status before committing CDBG funds to the projects.

Additionally, the City did not fully follow environmental review requirements for 22 non-human service projects totaling more than \$3.1 million. Requirements at 24 CFR 58.15 allow an entity to tier its environmental reviews and assessments to eliminate repetitive discussions of the same issues at higher levels of review. A HUD environmental officer explained that if an entity elects to tier its reviews, the project-specific review (tier 2) must reference the already approved broader review (tier 1). The City completed project-specific tier 2 environmental reviews; however, it did not complete a broad-level tier 1 review.

The City Did Not Understand HUD Environmental Review Requirements

The City did not understand HUD environmental review requirements. A City official stated that the City was not aware that it was required to complete an environmental assessment for all of its CDBG projects. Additionally, the City did not have detailed policies and procedures to ensure compliance with all applicable environmental review requirements.

The City Lacked Assurance That Its CDBG Projects Complied With Environmental Standards

As a result of the conditions described above, the City and HUD lacked assurance that the City's CDBG projects complied with environmental standards. The City needs to implement policies and procedures to ensure compliance with environmental regulations, which include

documenting the exempt status of projects and completing an environmental review before funds are requested.

Recommendations

We recommend that the Director of the Denver Office of Community Planning and Development require the City to

- 2A. Develop and implement detailed policies and procedures to ensure that it complies with HUD environmental review requirements.

- 2B. Provide support for the 22 non-human service CDBG projects, showing that each project was either exempt or complied with environmental requirements. For any portion of the \$3,154,456 not supported, the City should reimburse HUD from non-Federal funds.

Scope and Methodology

Our audit covered the period January 1, 2009, through December 31, 2013. We performed our work from October through December 2014 at the City's office located at 30 South Nevada Avenue, Suite 604, Colorado Springs, CO.

We issued memorandum report 2014-DE-1802 on September 30, 2014 to address allegations made in a citizen's complaint. In that memorandum we made three recommendations to address issues identified during that review. We did not include any items addressed in those recommendations as part of our testing or results for this review.

To accomplish our objectives, we obtained and became familiar with applicable HUD regulations and guidance. We also:

- Interviewed HUD's Denver Office of Community Planning and Development management and staff,
- Interviewed City's management and staff,
- Reviewed the City's project files and management files,
- Reviewed the City's written policies and procedures for CDBG,
- Reviewed prior HUD monitoring reviews.

To determine whether the City was properly charging its administrative costs we reviewed the employee salary breakouts sheets for 2009 -2013, since there were no timesheets, payroll logs, attendance records, or any other documentation to support salary expenses.

To determine whether the City was properly performing environmental reviews of its projects we reviewed all 83 completed human services projects from 2009 – 2013, for compliance with HUD environmental review requirements. Additionally, we reviewed 27 of the City's 38, completed non-human services projects for compliance with HUD environmental review requirements. The non-human services projects were from 2009 - 2012 totaling \$3.8 million. We reviewed the grant agreement and environmental review record for each project.

We did not use auditee computer-generated data as audit evidence or to support our audit conclusions. We used source documentation obtained from HUD and the auditee for background information purposes. We based all of our conclusions on source documentation reviewed during the audit.

We conducted the audit in accordance with generally accepted government auditing standards, see. 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(s).

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:

- Controls to ensure the proper charging of salaries.
- Controls to ensure compliance with HUD environmental review requirements.

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 did not have a system in place to track its employees' time (finding 1).
- The City did not have controls in place to ensure proper completion of its environmental reviews (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$3,854,017
1B	\$67,209
2B	\$3,154,456
Totals	\$7,075,682

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.


Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

HOUSING AND COMMUNITY INITIATIVES

June 19, 2015

Ronald J. Hosking, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit Region 8
1670 Broadway, 24th Floor
Denver, CO 80202

RE: Discussion Draft Audit Report: City of Colorado Springs, CO – Community Development Block Grant

Dear Mr. Hosking,

I have reviewed the Discussion Draft Audit Report: City of Colorado Springs, CO – Community Development Block Grant prepared by the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) and submit the following comments on behalf of the City.

General Comments

The audit report covers the time period of January 1, 2009 through December 31, 2013. The City made significant management changes in the Housing and Community Initiatives Division in September 2013, following the initial findings of an internal audit, and began implementing many of the recommendations identified in this OIG audit report beginning in fiscal year 2014. We believe the program is now in full compliance with HUD regulations.

CDBG Finding 1: The City Used Grant Funds for Unsupported Salary and Project Costs

1A. Unsupported Salary Costs

The City maintains documentation that supports salary costs used to administer CDBG projects. Information was provided to the OIG, and we believed outstanding issues were limited to salary-related direct activity costs, not all salaries paid over the audit period. The City will work directly with the Director of the Denver Office of Community Planning and Development to provide documentation to support salary costs used to administer CDBG projects.

1B. Unsupported Project Costs

The City maintains archives of all expenditure documentation and will provide documentation to support the project costs.

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80901www.coloradosprings.gov

Comment 2

1C. Develop and Implement a Detailed Payroll Tracking System

The City has implemented a detailed payroll tracking system to ensure that all administrative costs are accurately charged.

1D. Develop and Implement a System to Track Project Files

All staff and project files were recently centralized and relocated to the City Administration Building. Staff is updating the file labelling and location system and implementing procedures for electronic backup of project files.

CDBG Finding 2: The City Did Not Comply With Environmental Review Requirements

2A. Develop and Implement Detailed Policies and Procedures

The City believes it is now in compliance with HUD environmental review requirements. HUD issued an environmental monitoring report on April 25, 2015 and the Division responded to the report on May 22, 2015. The City's response included detailed standard operating procedures for accomplishing Part 58 environmental reviews prior to commitment of funds.

2B. Provide Support For The 22 Non-Human Service CDBG Projects Showing that Each Project Was Either Exempt or Complied With Environmental Requirements

As discussed in the report, the City did complete tier 2 environmental reviews for each project. The City will provide additional documentation as necessary to show that each project was either exempt or complied with environmental requirements.

Thank you for the opportunity to respond to the Discussion Draft Audit Report. We look forward to working directly with the Director of the Denver Office of Community Planning and Development to resolve outstanding issues as quickly as possible. Please contact me at aicox@springsgov.com or 719.385.6609 if you have any questions.

Best regards,



Aimee Cox
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OIG Evaluation of Auditee Comments

- Comment 1 The City did not provide detailed payroll records to support its CDBG salaries during our review. As part of the normal audit resolution process, HUD will work with the City to determine if the recommendations are satisfied.
- Comment 2 We appreciate the proactive attention to our recommendations; however, we did not verify that the corrective actions satisfy the recommendations. Therefore, HUD will verify whether they adequately meet the intent of the recommendations during the normal audit resolution process.