



City of Huntington Beach, CA

Community Development Block Grant Program

Office of Audit, Region 9
Los Angeles, CA

Audit Report Number: 2016-LA-1012
September 28, 2016



To: William G. Vasquez, Director, Office of Community Planning and Development,
Los Angeles, 9DD

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: The City of Huntington Beach, CA, Administered Its Community Development
Block Program in Accordance With HUD Rules and Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Huntington Beach'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 213-534-2471.



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The City of Huntington Beach, CA, Administered Its Community Development Block Program in Accordance With HUD Rules and Requirements

Highlights

What We Audited and Why

We audited the City of Huntington Beach's Community Development Block Grant program due to issues identified by the U.S. Department of Housing and Urban Development's (HUD) Los Angeles Office of Community Planning and Development. In addition, Office of Inspector General (OIG) data analytics identified timeliness issues with the use of program funding. We also selected the City because it had not been audited by OIG. Our objective was to determine whether the City administered its program in accordance with applicable HUD rules and requirements. Specifically, we wanted to determine whether its projects complied with program requirements.

What We Found

The City administered its program funds in accordance with applicable HUD rules and requirements for the projects reviewed. The program-funded projects reviewed met program national objectives, and project activities were supported and met eligibility criteria. The City had addressed HUD's monitoring concerns and timeliness issues.

What We Recommend

There are no recommendations.

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Background and Objective

The City of Huntington Beach is a recipient of the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) entitlement program. The program funds are intended to help the City develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons. The program is authorized under Title 1 of the Housing and Community Development Act of 1974, Public Law 93-383, as amended in 42 United States Code 530.1 et seq.

HUD awarded the City more than \$2.9 million in funding through the program for fiscal years ending October 1, 2013, through September 30, 2016. As of June 1, 2016, HUD's Line of Credit Control System¹ reports showed that the City had drawn down more than \$1.6 million. The City identified the following objectives for its use of program funds:

1. Provide decent affordable housing. The City includes a wide range of housing possibilities under the HOME Investment Partnerships Program and CDBG.
2. Creating a suitable living environment. The City will undertake activities that benefit communities, families, or individuals by addressing issues in their living environment.
3. Creating economic opportunities. The City will undertake activities related to economic development, commercial revitalization, or job creation.

The City's Office of Business Development administers the program funds to meet these objectives.

The objective was to determine whether the City administered its program in accordance with applicable HUD rules and requirements. Specifically, we wanted to determine whether its projects complied with program requirements.

¹ The Line of Credit Control System is HUD's primary grant disbursement system used for handling disbursements for the majority of HUD programs.

Results of Audit

Finding: The City Administered Its Program in Accordance With HUD Rules and Requirements

The City administered its program funds in accordance with applicable HUD rules and requirements for three public service projects, one code enforcement project, and a program administration project reviewed during the review. The projects were eligible and properly supported. The City had also addressed HUD's monitoring concerns and timeliness issues regarding the use of program funds.

Program-Funded Projects Were Eligible and Supported

The CDBG projects reviewed were eligible and supported. We reviewed the following five projects:

Public service projects

- Activity 543 – Oak View Community Center Children's Bureau
- Activity 577 – Senior Outreach Services
- Activity 565 – AIDS Services Foundation OC

Code enforcement

- Activity 574 – Special Code Enforcement

Project administration

- Activity 569 – Fair Housing Foundation

All five projects met at least one of the program national objectives. The City ensured that all project activities met eligibility criteria and expenses were supported. As a result, \$183,378 in program expenses for the five projects was eligible and supported.

The City Had Addressed Monitoring and Timeliness Issues

The City had addressed HUD's monitoring concerns identified in a 2014 monitoring report. Specifically, it implemented a CDBG policy and procedures guide and grant management policies and procedures in June 2015 and April 2016, respectively. The City also established eligibility checklists for its projects to ensure that program funds had the required supporting documents. Further, it repaid HUD \$29,053 for incurred ineligible program costs.

The City acknowledged its timeliness issues by hiring a new grants accountant in January 2016 to ensure that program funds would be spent according to HUD's timeliness requirements. The City stated that it would ensure that timeliness requirements would be met.

Recommendations

There are no recommendations.

Scope and Methodology

We performed our audit at the City's office in Huntington Beach, CA, from June 2 to August 19, 2016. Our review covered the period October 1, 2013, to June 1, 2016, and was expanded as necessary.

To accomplish our objective, we

- Reviewed relevant background information, including grant agreements, HUD monitoring reports, and the City's consolidated and action plans;
- Reviewed and analyzed the City's policies and procedures and internal controls relating to its program;
- Reviewed the City's audited financial statements for fiscal years 2013, 2014, and 2015;
- Reviewed applicable HUD program rules and requirements;
- Reviewed information from HUD's Line of Credit Control System;
- Reviewed information from HUD's Integrated Disbursement and Information System;
- Reviewed project files for sampled program expenses;
- Interviewed City personnel responsible for administering the program; and
- Performed site visits to sampled program-funded projects.

We relied on data maintained by the City. Specifically, we relied on the accuracy of data from HUD's Integrated Disbursement and Information System² for the period October 1, 2013, through June 1, 2016. We performed a data reliability assessment and determined that the data were sufficiently reliable for our audit objective. Specifically, we compared the total spent program funds in the data with the City's audited single audit reports and consolidated annual performance and evaluation reports.

The audit universe consisted of 43 projects totaling more than \$2.1 million in expenditures for the period October 1, 2013, through June 1, 2016. For our review, using Microsoft Excel's random generator, we selected five projects with transactions totaling \$183,378 in project expenditures for the period. Overall, our sample represented 8 percent of the expenditures for the period. Although this approach did not allow us to make a projection to the population, it was sufficient to meet the audit objective.

² The Integrated Disbursement and Information System provides HUD with current information regarding the program activities underway across the Nation, including funding data.

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

Internal Controls

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and requirements.

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

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to support eligible program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure that the monitoring of and expenditures for program activities comply with applicable HUD rules and 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.

We evaluated the internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls did not identify significant deficiencies related to our audit objective. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Appendix A

Auditee Comments

The City declined the opportunity to provide a written response.