

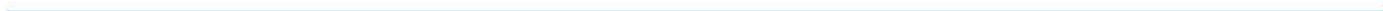


# The City of Atlanta, GA

## Neighborhood Stabilization Program Grants 1 and 3

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

**Audit Report Number: 2017-AT-1007  
July 17, 2017**





**To:** Rufus Washington, Director, Office of Community Planning and Development,  
4AD

*//signed//*

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

**Subject:** The City of Atlanta, GA, Did Not Properly Administer the Neighborhood  
Stabilization Program Grants for Its Subrecipient in Accordance With  
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 Atlanta's Neighborhood Stabilization Program grants 1 and 3.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



**Audit Report Number: 2017-AT-1007**

**Date: July 17, 2017**

**The City of Atlanta, GA, Did Not Properly Administer the Neighborhood Stabilization Program Grants of Its Subrecipient in Accordance With Requirements**

## Highlights

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### What We Audited and Why

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We audited the City of Atlanta, GA, and its subrecipient, the Fulton County-City of Atlanta Land Bank Authority. We began our review of the City's administration of its Neighborhood Stabilization Programs 1 (NSP1) and 3 (NSP3) grants because it aligns with our goal in the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's annual audit plan to improve HUD's execution of and accountability for grant funds. Our audit objective was to determine whether the City of Atlanta administered the NSP1 and NSP3 grants of its subrecipient, the Fulton County-City of Atlanta Land Bank Authority, in accordance with HUD regulations.

### What We Found

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The City did not properly administer the NSP1 and NSP3 grants of its subrecipient, the Land Bank, in accordance with Federal requirements. This condition occurred because the City did not maintain proper oversight of its subrecipient. In addition, the City and the Land Bank did not implement proper procedures to ensure that NSP funds were properly supported. Therefore, the City provided the Land Bank NSP funds without adequate assurance that the funds would be properly accounted for in accordance with HUD requirements. As a result, the City, via its subrecipient, paid \$48,985 for expenses not properly supported and could put the remaining \$248,596 in NSP funds to better use.

### What We Recommend

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We recommend that the Director of the Atlanta Office of Community Planning and Development require the City to (1) provide adequate monitoring to the Land Bank to ensure that the subrecipient follows Federal regulations, (2) provide adequate support for expenses totaling \$48,985, (3) ensure that the Land Bank completes and clears all outstanding annual audits and develops and implements adequate financial and file management policies and procedures, and (4) reprogram the remaining NSP1 funds of \$219,851 and NSP3 funds of \$28,745 to another subrecipient or developer or reimburse the funds to the U.S. Treasury.

# Table of Contents

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<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>5</b>
<b>Finding: The City of Atlanta Did Not Properly Administer the Neighborhood     Stabilization Program Grants of Its Subrecipient in Accordance With     Requirements.....</b>	<b>5</b>
<b>Scope and Methodology.....</b>	<b>10</b>
<b>Internal Controls.....</b>	<b>12</b>
<b>Appendixes.....</b>	<b>13</b>
<b>A. Schedule of Questioned Costs and Funds To Be Put to Better Use.....</b>	<b>13</b>
<b>B. Auditee Comments and OIG’s Evaluation .....</b>	<b>14</b>

# Background and Objective

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On July 30, 2008, President George W. Bush signed into law the Housing and Economic Recovery Act of 2008 to address the severe housing crisis. Title III of the Act appropriated \$3.92 billion in grant funds under the Neighborhood Stabilization Program (NSP1) for States and local governments to purchase and redevelop abandoned or foreclosed-upon properties. The Housing and Economic Recovery Act of 2008 required grantees to spend 100 percent of their allocated funds within 4 years from the date funds became available to the grantee for obligation. The City of Atlanta received \$12.3 million in NSP 1 funds on March 5, 2009. HUD's cumulative data report in its Disaster Recovery Grant Reporting system showed that the City met the NSP1 expenditure requirement on March 4, 2013.

The Neighborhood Stabilization Program 3 (NSP3) funds authorized under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) were awarded to States and selected local governments on a formula basis to mitigate the negative impact of the Nation's economic decline and housing market collapse and to stabilize and revitalize communities and areas hit the hardest. NSP3 provides a third round of neighborhood stabilization grants. Dodd-Frank, Section 1497, required grantees to spend 100 percent of allocated funds within 3 years from the date funds became available to the recipient for obligation. The City received \$4.9 million in NSP 3 funds on March 8, 2011. HUD's March 11, 2014, letter to the City stated that the City met the 100 percent expenditure deadline for NSP3 on March 8, 2014.

The City's Office of Housing and Community Development has direct administrative oversight, management, and implementation of the City's NSP grants. It is a component of the Department of City Planning. The Office of Housing's mission is to promote coordinated community development and support the production and rehabilitation of safe, sanitary, and affordable housing, thus stimulating the economic development opportunities for the residents of Atlanta.

The City engaged the Fulton County-City of Atlanta Land Bank Authority, Inc., as a subrecipient to acquire and land bank foreclosed-upon, abandoned, and vacant residential properties and transfer them to developers for redevelopment under the NSP1 and NSP3 grants. The Land Bank was incorporated as a nonprofit organization in the State of Georgia, effective October 22, 1991. The organization's main mission is to return non-tax-generating properties to productive use; specifically, to provide land to be used in the creation of housing, new industry, and jobs for low- to moderate-income residents of Atlanta and Fulton County. The executive director is responsible for the day-to-day activities of the Land Bank.

The City received more than \$12.3 million in NSP1 funds and more than \$4.9 million in NSP3 funds from HUD. Of these amounts, it allocated more than \$2.2 million in NSP1 funds and more than \$4.4 million in NSP3 funds for the Land Bank.<sup>1</sup> Additionally, the Land Bank was approved

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<sup>1</sup> The Land Bank was 1 of 14 subrecipients to receive NSP1 funds from the City. The City originally allocated \$375,000 to the Land Bank; however, through five contract amendments, the City provided the Land Bank more than \$3.5 million. The Land Bank was the sole subrecipient of NSP3 grant funds.

for \$1.3 million in NSP1 program income and \$15,000 in NSP3 program income, for a total of more than \$7.9 million.

Our audit objective was to determine whether the City administer the NSP1 and NSP3 grants of its subrecipient, the Fulton County-City of Atlanta Land Bank Authority, in accordance with HUD regulations.

# Results of Audit

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## **Finding: The City Did Not Properly Administer the Neighborhood Stabilization Program Grants of Its Subrecipient in Accordance With Requirements**

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The City did not properly administer the NSP1 and NSP3 grants of its subrecipient, the Land Bank, in accordance with Federal requirements. This condition occurred because the City did not maintain proper oversight of its subrecipient. In addition, the City and the Land Bank did not implement proper procedures to ensure that NSP funds were properly supported. Therefore, the City provided the Land Bank NSP funds without adequate assurance that the funds would be properly accounted for in accordance with HUD requirements. As a result, the City, via its subrecipient, paid \$48,985 for expenses not properly supported and could put the remaining \$248,596 in NSP funds to better use.

### **NSP Expenditures Not Sufficiently Supported**

The City, via its subrecipient, did not provide sufficient support for the 10 property files reviewed. All 10 properties totaling \$712,079 were improperly supported. The Land Bank was unable to provide adequate documentation, such as canceled checks, paid bills, and check summaries, to support that it paid vendors more than \$48,000 for items related to both NSP1 and NSP3 expenditures as required by 24 CFR (Code of Federal Regulations) 85.20(b)(6). The table below shows a breakdown of the questioned costs.

Property	NSP 1 and NSP 3 costs not supported
128 Dahlgren Street SE	\$ 200
438 West Ontario Avenue SW	1,434
1687 South Gordon Street SW	1,787
1515 Westwood Avenue SW	2,487
117 Lamar Avenue NW	13,946
855 Pryor Street SW	4,283
3633 Ramsey Close SW	4,907
1081 Sims Street SW	7,719
1169 McDaniel Street SW	3,687
806 Humphries Street SW	8,535
<b>Totals</b>	<b>48,985</b>

### Financial Management System Not Accurate or Complete

The Land Bank's financial management system was not maintained in a way to ensure accuracy and completeness. We spoke with the Land Bank's accountant to gain an understanding of its financial records. The accountant stated that she was unable to conduct the 2012 audit initially in 2014 because the financial records were not auditable. The Land Bank was on its third bookkeeper since 2012. The previous two bookkeepers were dismissed due to inconsistent services and multiple errors. The current bookkeepers were hired in February 2016 to reconcile the Land Bank's records from 2012 through 2015, while maintaining the financial records for 2016. The current bookkeepers used bank statements and disbursement records to reconcile the accounts. According to part III, section 13, of the agreement between the City and the Land Bank for both NSP1 and NSP3, the subrecipient must maintain adequate records in such a manner that they may be audited at any time during the contract period and 3 years after termination of the contract.

The City conducted a monitoring review of both the NSP1 and NSP3 grants held by the Land Bank in October 2016. The results of that review were provided to the Land Bank on February 6, 2017.<sup>2</sup> Based on the results of this review, the Land Bank received two findings concerning

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<sup>2</sup> The City conducted monitoring reviews of the Land Bank in 2011, 2012, 2013, 2015, and 2016 because it receives Community Development Block Grant (CDBG) and HOME Investment Partnerships Program funds. However, the NSP grant monitoring reviews were performed only in April 2011 and October 2016. Although the monitoring

its financial management system, including a finding for failing to maintain records and accounts that were determined by the City and HUD to be necessary to ensure proper accounting for all project funds. The results also stated that financial records should be maintained to provide accountability for receipts and expenditures by grant.

The Land Bank could not guarantee that NSP funds received were not comingled with other Federal and non-Federal funds. According to 24 CFR 84.21(b)(2), recipients' financial management systems must provide records that adequately identify the source and application of funds for federally sponsored activities. Past monitoring reports completed by the City showed that the Land Bank had comingled NSP funds with Community Development Block Grant (CDBG) funds. We reviewed the Land Bank's general ledger for fiscal years 2012 through 2015 and were unable to determine the identity

of the funds. General ledger entries included only the title, "City of Atlanta," but no description of the source of funds.<sup>3</sup> We provided the bookkeeper with a sample of deposits to trace the source of the funding. Our review of 15

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**The Land Bank could not guarantee that NSP funds received were not comingled.**

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deposits determined that 5 deposits contained funds from multiple grants and 1 deposit of NSP3 funds was mislabeled as CDBG. The Land Bank's executive director stated that the Land Bank had inadequate bookkeepers or no bookkeepers during this time. Further, the Land Bank's bookkeepers stated that when they were hired to reconstruct the financial records, they focused on the expenditures and not the sources of funds. The bookkeepers said that their focus going forward will be to adequately identify both the sources and uses of the funds.

### **Annual Audits Not Completed in a Timely Manner**

The Land Bank had not completed an independent audit since fiscal year 2011.<sup>4</sup> Under Office of Management and Budget (OMB) Circular A-133<sup>5</sup>, subpart B, section 200, non-Federal entities that spend \$500,000 or more in Federal funds are required to have an independent audit performed. OMB Circular A-133 provided sanctions<sup>6</sup> for the City to use against the Land Bank's inactions, and 24 CFR 570.501(b) states the recipient is responsible for taking appropriate action when performance problems arise with its subrecipients. Although the City

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review was completed before our entrance conference on October 19, 2016, the City did not issue the final results until after we met with City officials on January 19, 2017, to discuss our issues and possible sanctions, which were similar to issues and sanctions identified in the review.

<sup>3</sup> The Land Bank received NSP1, NSP3, CDBG, and Invest Atlanta funds from the City. It was not uncommon for the City to pay multiple grants to the Land Bank in one batch.

<sup>4</sup> The Land Bank had not completed an annual audit within the required timeframes. The fiscal year 2008 audit was issued in June 2010, the fiscal year 2009 audit was issued in June 2011, the fiscal year 2010 audit was issued in October 2012, and the fiscal year 2011 audit was issued July 2013.

<sup>5</sup> OMB Circular A-133 was moved to 2 CFR 200 Subpart F on December 26, 2014, effective the Land Bank's 2015 fiscal year. Additionally, the dollar threshold increased from \$500,000 to \$750,000.

<sup>6</sup> OMB Circular A-133, subpart B, section 225, states that in cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities must take appropriate action using sanctions, such as (a) withholding a percentage of Federal awards until the audit is completed satisfactorily, (b) withholding or disallowing overhead costs, (c) suspending Federal awards until the audit is conducted, or (d) terminating the Federal award.

was aware of this 4-year annual audit violation,<sup>7</sup> it did not impose any of the available sanctions but continued to provide the Land Bank NSP funds. In July 2016, the Land Bank engaged an independent public accountant to conduct the overdue annual audits for 2012 through 2015, beginning with the 2012 audit in November 2016. As of May 17, 2017, the Land Bank did not have access to the remaining \$248,596 in NSP1 and NSP3 funds previously allocated to it by the City. The City was working to reprogram the NSP funds for other developers to use on NSP-eligible activities.

### **NSP Property Files Not Adequately Maintained**

The City, via its subrecipient, did not maintain complete records for the 10 properties reviewed. We requested acquisition and financial documentation from both the City and the Land Bank when we began our review in October 2016. We made several attempts to obtain the financial documentation from the Land Bank and received auditable documentation for the 10 properties on January 24, 2017. The Land Bank management stated that the delay in providing the information was because we requested the financial documents by property. According to part III, section 13, of the contract agreement between the City and the Land Bank for both NSP1 and NSP3, the subrecipient must maintain adequate records in such a manner that they may be audited at any time during the contract period and 3 years after termination of the contract.

The Land Bank did not maintain the financial documentation for the properties in the property case files. It maintained the expense information in payee files and not in the individual property files. Therefore, the Land Bank had to compile the financial documentation for our review. According to part II-A, section A(5), of the NSP subrecipient agreement, the Land Bank will maintain case files for each property, including but not limited to documentation of maintenance contracts and expenses. Therefore, the Land Bank should have maintained these expenses in each individual property case file. As a result, the Land Bank had to seek board approval to ask its bookkeepers to organize the files into an auditable format for our review since it was outside its scope of work.

### **Conclusion**

The City did not properly administer the NSP1 and NSP3 grants of the Land Bank in accordance with Federal requirements. Due to a lack of proper oversight by the City, the Land Bank received NSP funds without adequate assurance that the funds would be properly accounted for in accordance with Federal requirements. Additionally, the City, via its subrecipient, paid \$48,985 for expenses not properly supported and could put the remaining \$248,596 in NSP funds to better use.

### **Recommendations**

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

- 1A. Provide adequate monitoring to the Land Bank to ensure that the subrecipient follows Federal regulations as required, including policies and procedures to help

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<sup>7</sup> City management acknowledged that the Land Bank was behind on the required audits during discussions with auditors, as well as in monitoring reviews, and in correspondence with the Land Bank.

verify subrecipient compliance or address any deficiencies in need of correcting, such as annual audits, financial management systems, and file management.

- 1B. Provide adequate support for expenses totaling \$48,985. Any expenses that are not supported should be repaid to the appropriate NSP grant from non-Federal funds.
- 1C. Ensure that the Land Bank completes and clears all outstanding annual audits for fiscal years 2012 through 2016.
- 1D. Ensure that the Land Bank develops and implements adequate financial and file management policies and procedures to ensure that files are auditable and financial records adequately identify the source and application of federally sponsored activities in accordance with Federal regulations.
- 1E. Reprogram the remaining NSP1 funds of \$219,851 and NSP3 funds of \$28,745 to another subrecipient or developer or return the funds to the U.S. Treasury.

# Scope and Methodology

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We performed our fieldwork at the City's Department of Planning and Community Development at 68 Mitchell Street, Suite 1200, and the Land Bank at 34 Peachtree Street, Suite 2200. We performed our audit work from October 2016 through April 2017. Our audit period was December 1, 2009, through September 30, 2016. We expanded the audit period as needed to accomplish our objective.

To accomplish our objective, we

- Reviewed and obtained an understanding of the City's and the Land Bank's policies and procedures, relevant laws, regulations, and grant agreements with HUD and HUD's guidance.
- Reviewed the board of commissioners and board of directors meeting minutes for both the City and the Land Bank for the period December 2009 through July 2016.
- Obtained and reviewed organization charts for the City and the Land Bank.
- Reviewed monitoring reports conducted by HUD and the City.
- Reviewed the City's audit reports for its fiscal years 2010 through 2015.
- Reviewed the Land Bank's audited financial statements for its fiscal years 2009 through and 2011.
- Analyzed the Land Bank's financial records, including but not limited to the general ledger, bank statements, vendor invoices, checks and deposits, and drawdown requests.
- Reviewed NSP acquisition and financial property files.
- Performed site visits to 10 NSP properties acquired and maintained by the Land Bank.
- Reviewed procurements conducted by the Land Bank.
- Interviewed City and Land Bank employees, contractors, and HUD staff.

We developed a random list of property files based on a universe of 84 properties the City and the Land Bank acquired totaling more than \$6 million in NSP1 and NSP3 funds. From the 84 property files, 58 properties were from NSP1 funds, 25 were from NSP3 funds, and 1 received both NSP1 and NSP3 funds. Using a nonstatistical random selection process, we selected for review 10 properties totaling \$712,079 to determine whether the properties were eligible, met the appropriate national objective, and were properly supported. This represented approximately 12 percent of the NSP property universe. To conduct the review, we requested the total amount of grant funds the City spent on each property. Of the 10 properties, the City used \$397,998 in NSP1 funds and \$314,081 in NSP3 funds for acquisition, holding, and development expenses.

Using a random number generator, we reviewed a random sample of 15 NSP deposits totaling \$217,209 to determine whether the deposits were appropriately tracked and not comingled by tracing the funds from the time the Land Bank received the funds until the funds were disbursed.

According to the general ledger, there were 153 deposits totaling more than \$4.6 million made by the City to the Land Bank from January 2012 through December 2015. Our sample represented approximately 10 percent of the universe of NSP deposits.

The results of the audit apply only to items selected for review and cannot be projected to the universe or population.

We relied in part on computer-processed data contained in the City's and the Land Bank's system to achieve our audit objective. Although we did not perform detailed assessments of the reliability of the data, we performed minimal levels of testing and found the data to be adequately reliable for our purposes. The tests for reliability included but were not limited to comparing computer-processed data to vendor payments, financial records, and other supporting documentation.

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

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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.

## **Relevant Internal Controls**

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that file maintenance, expenditure, and financial reporting activities are conducted in accordance with applicable laws and regulations.
- 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 expenditure and financial reporting activities comply with applicable laws and regulations.

We assessed the relevant controls identified above.

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

## **Significant Deficiency**

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

- The City did not administer the NSP grants of its subrecipient, the Land Bank, in accordance with Federal requirements (finding).

# Appendixes

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## Appendix A

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

<b>Recommendation number</b>	<b>Unsupported 1/</b>	<b>Funds to be put to better use 2/</b>
1B	\$48,985	
1E		\$248,596
<b>Totals</b>	<b>48,985</b>	<b>248,596</b>

- 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.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the City implements our recommendation, it will be able to provide funds to a subrecipient or developer with assurance that the funds are properly accounted for in accordance with Federal requirements.

## Appendix B

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments



CITY OF ATLANTA

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COMMUNITY DEVELOPMENT

June 12, 2017

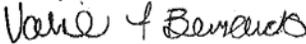
Ms. Nikita N. Irons  
Regional Inspector General for Audit  
Office of Audit (Region IV)  
75 Spring Street, SW  
Atlanta, GA 30303

SUBJECT: 2017 NSP OIG Audit Report

Dear Ms. Irons:

This correspondence is in response to your letter dated May 31, 2017 regarding the draft audit report of the City of Atlanta's Neighborhood Stabilization Program 1 and 3 Grants. The NSP program has been a vital tool for revitalizing some of the City's neighborhoods hardest hit by the foreclosure crisis and has impacted 161 foreclosed and/or vacant properties that will generate over 300 units of affordable housing for low- and moderate-income households.

For your review, we have enclosed a detailed response to your draft audit report and recommendations. The City is appreciative of its relationship with HUD for its ongoing support of low- and moderate-income households and communities and is grateful for the professionalism demonstrated by the OIG staff assigned to audit the City. We look forward to your continued support on this and other matters. Should you have any questions regarding our response, please do not hesitate to contact me.

Sincerely,  
  
Valerie F. Bernardo  
Director

cc: Rufus Washington, Director Atlanta Regional Office, HUD  
Tim Keane, Commissioner – Department of City Planning  
Terri Lee, Deputy Commissioner – Department of City Planning  
Sule Carpenter, Assistant Director of Housing – Office of Housing & Community Development

**Ref to OIG  
Evaluation**

**City of Atlanta, Georgia Response to the  
United States Department of Housing and Urban Development  
Office of the Inspector General, Region 4  
2017 NSP Audit Report**

Comment 1

**NSP Expenditures not sufficiently supported**

The City of Atlanta (City) acknowledges that the Fulton County/City of Atlanta Land Bank Authority (LBA) was not adequately maintaining sufficient supporting documentation (i.e. cancelled checks and check summaries) for NSP eligible expenses. On January 25, 2016, the LBA procured the accounting firm, Price Dean Accounting Solutions to assist in the reconciliation of their financial records. More recently, Price Dean aided in the reconciliation of the \$48,985 that was identified as "unsupported expenses" in the OIG Audit Report. As of Friday, June 9, 2017, the LBA has provided supporting documentation for an additional \$13,409 thereby reducing the unsupported expenses to \$35,575. This information has been reviewed by the City and is summarized as follows:

Property	NSP1 and NSP3 Costs Not Supported (As Determined by the OIG)	Land Bank Authority Supporting Documentation Provided through 6/09/2017
128 Dahlgren Street, SE	\$200	\$200
438 West Ontario Avenue, SW	\$1,434	\$1,434
1687 South Gordon Street, SW	\$1,787	\$380
1515 Westwood Avenue, SW	\$2,487	\$2,102
117 Lamar Avenue, NW	\$13,946	\$5,386
855 Pryor Street, SW	\$4,283	\$1,289
3633 Ramsey Close, SW	\$4,907	\$1,903
1081 Simms Street, SW	\$7,719	\$495
1169 McDaniel Street, SW	\$3,687	\$0
806 Humphries Street, SW	\$8,535	\$220
<b>TOTAL:</b>	<b>\$48,985</b>	<b>\$13,409</b>

The City is requiring the LBA to continue its effort to reconcile the remaining balance and provide evidence of additional supporting documentation to the City by August 2017. Upon receipt, the City will review the information for accuracy and forward this information to the local HUD office for review.

Comment 2

**Financial Management System Not Accurate or Complete**

The City agrees with the conclusion that the LBA's financial systems were neither accurate nor complete during the period examined by the OIG. This is further evidenced by the fact that the City issued two findings in its 2016 monitoring of the LBA for failing to maintain records and accounts that were necessary to ensure proper accounting for all project funds. Additionally, the City concurs that the LBA was unable to guarantee that NSP funds received were not comingled with other Federal and non-Federal funds. In an effort to address these issues, the City will require the LBA and its governing board to attend financial management training.

Comment 3

**Annual Audits Not Completed in a Timely Manner**

The City agrees with the OIG's noted deficiency regarding the LBA's failure to complete audits in a timely manner in compliance with the regulations of OMB Circular A-133. During the period in question, the City held numerous meetings and sent correspondence requesting the

**Ref to OIG  
Evaluation**

**City of Atlanta, Georgia Response to the  
United States Department of Housing and Urban Development  
Office of the Inspector General, Region 4  
2017 NSP Audit Report**

submission and reconciliation of their financial records. In its 2016 monitoring of the LBA, the City issued sanctions concerning this matter due to a lack of progress in completing the task. Specifically, the City indicated that it would withhold all payments related to NSP1 and NSP3 until the outstanding audits from fiscal year 2012 – 2016 were complete. As of June 9, 2017 no additional payments have been made to the LBA from NSP1 or NSP 3 funds.

To date, the LBA has presented a copy of its 2012 audit to the City of Atlanta. There were no audit findings or concerns. The LBA Board is expected to approve the 2012 audit at the June 22, 2017 board meeting. The 2013 audit is also underway and is anticipated to be completed and approved by the Board at the June 22, 2017 board meeting.

Comment 4

**NSP Property Files not Adequately Maintained**

The City acknowledges that the LBA did not maintain the financial documentation for the properties in the property case files. The LBA did, however, maintain the required acquisition and disposition documentation in the property case files which were monitored by the City and determined to be in compliance with the NSP regulations and the subrecipient written agreement. While the maintenance of the financial documentation in the property case file is not a federal requirement, the City acknowledges that it was a requirement imposed within the subrecipient written agreement.

Comment 5

**Conclusion**

The City understands how the OIG came to its conclusion that it did not properly administer the NSP1 and NSP3 programs, however we feel that it should be noted that the concerns cited in the OIG Audit report were in reference to how the LBA maintained its financial records and not a reflection of the City's financial management system or record keeping procedures. Furthermore, all expenses incurred were eligible under the NSP regulations and proper supporting documentation (i.e. invoices) was provided to the City prior to the disbursement of funding to the LBA.

Comment 6

**OIG Recommendations:**

- 1A. Provide adequate monitoring to the Land Bank Authority to ensure that the subrecipient follows Federal Regulations as required, including policies and procedures to help verify subrecipient compliance or address any deficiencies in need of correcting, such as annual audits, financial management systems and file management.**

The City accepts the OIG's recommendation to provide adequate monitoring to the LBA. Based on the results of the OIG Audit Report as well as the City's 2016 monitoring report, the LBA has been identified as a high-risk subrecipient and will require stricter oversight of all grant awards issued by the City. More specifically, in an effort to ensure that the Land Bank will be likely to achieve the requirements set forth in 24 CFR Part 84.21 and CFR 570.502(b)(3)(i), as it relates to Accounting Records and Financial Reporting, the City has required the submission of a Transaction Journal report and

**Ref to OIG  
Evaluation**

**City of Atlanta, Georgia Response to the  
United States Department of Housing and Urban Development  
Office of the Inspector General, Region 4  
2017 NSP Audit Report**

Accounts Receivable report demonstrating that the expenses have been properly documented in the LBA's accounting system prior to the release of funding.

Additionally, all monitoring will be conducted to ensure that the LBA is implementing the program in a manner that is consistent with the terms outlined in the subrecipient agreement, federal program regulations and applicable laws. The scope of the monitoring will not only include a review of programmatic requirements, but also of the LBA's policies and procedures, annual audits, financial management systems and file management protocol. The City is scheduled to monitor the LBA next month (July 2017).

Findings and concerns that result from the monitoring visit will be noted and corrective actions will be required within a 30 to 60 day period. Items that are not adequately addressed within the prescribed time period may result in additional specific award conditions in accordance with 24 CFR 200.207 which includes but is not limited to:

- Requiring repayment of federal funds to the City of Atlanta; or
- Excluding the LBA from receiving future awards.

**1B. Provide adequate support for expenses totaling \$48,985. Any expenses that are not supported should be repaid to the appropriate NSP grant from non-Federal funds.**

The City acknowledges that the LBA's financial records were not maintained in a manner that enabled the OIG's Auditors to determine if the expenses reviewed were properly supported during the monitoring visit. Nevertheless, prior to disbursing funds to the LBA during the contract period, the City received supporting documentation for eligible expenses. Since the completion of the OIG Audit, the City has required the LBA to review its records. To date, the LBA has submitted supporting documentation for \$13,409 which has been reviewed by the City for accuracy and reduced the amount of unsupported expenses to \$35,575. The City will require the LBA to continue its effort to reconcile the remaining balance and provide evidence of supporting documentation to the City by August 2017. Upon receipt, the City will forward this information to the local HUD office for review.

**1C. Ensure that the Land Bank Completes and clears all outstanding annual audits.**

The City will continue to monitor the LBA's progress towards the completion of its annual audits and clearing any subsequent findings. The LBA has presented a copy of its 2012 audit, in which, there are no audit findings or concerns. The LBA Board is expected to approve the 2012 audit at the June 22, 2017 board meeting. The 2013 audit is also underway and is anticipated to be completed and approved by the Board at the June 22, 2017 board meeting.

The LBA has also provided a schedule which projects the completion of its outstanding audits by November 2017. The schedule is summarized as follows:

Comment 1

Comment 3

**Ref to OIG  
Evaluation**

**City of Atlanta, Georgia Response to the  
United States Department of Housing and Urban Development  
Office of the Inspector General, Region 4  
2017 NSP Audit Report**

<b>LBA Audit Completion Schedule</b>	
<b>Fiscal Year</b>	<b>LBA Board Approval</b>
2013	June 22, 2017
2014	August 2017
2015	October 2017
2016	November 2017

Comment 7

- 1D. Ensure that the Land Bank develops and implements adequate financial and file management policies and procedures to ensure that files are auditable and financial records adequately identify the source and application of federally sponsored activities in accordance with Federal regulations.**

The LBA has presented updated financial and file management policies that ensure that their files are auditable and that their financial records adequately identify the source and application of federally sponsored activities in accordance with federal regulations. The City has reviewed the revised policies and determined that they adequately address the above referenced concerns.

Comment 8

- 1E. Reprogram the remaining NSP1 funds of \$219,851 and NSP3 funds of \$28,745 to another subrecipient or developer or return the funds to the US Treasury**

The City has prepared legislation to reprogram the remaining NSP1 funds of \$219,851 and NSP3 funds of \$28,745 allocated to the LBA. The legislation will be introduced at the July 11 Community Development and Human Services City Council Committee meeting and is projected to be approved at the August 21, 2017 meeting. The City will submit a NSP1 and NSP3 Action Plan Amendment to remove the LBA as the designated responsible organization.

## OIG Evaluation of Auditee Comments

Comment 1 The City acknowledged that the Land Bank did not adequately maintain sufficient supporting documentation for NSP eligible expenses. The City further stated that the Land Bank has subsequently provided supporting documentation for more than \$13,000 of the \$48,000 identified as unsupported. The City is requiring the Land Bank to continue its effort and provide the additional supporting document to the City by August 2017. The City will review the information for accuracy and provide it to HUD for review.

We recognize the City's and Land Bank's efforts to provide the required supporting documentation. The City must provide adequate supporting documentation to HUD to clear the recommendation during the audit resolution process.

Comment 2 The City agreed with our assessment concerning the Land Bank's financial systems. The City stated that its 2016 monitoring report identified two findings for similar issues. Further, the City agreed the Land Bank could not guarantee that NSP funds were not comingled. As such, the City is requiring the Land Bank and its governing board to attend financial management training.

We acknowledge the City's agreement with our conclusion regarding the Land Bank's financial system and the comingling of NSP funds with other funds, both Federal and non-Federal. We also commend the City's requirement for the Land Bank and its board to attend financial management training.

Comment 3 The City agreed with our conclusion concerning the Land Bank's lack of completed annual audits in a timely manner. The City stated they held numerous meetings and sent correspondence requesting submission and reconciliation of their financial records. Further, the City stated that it issued sanctions against the Land Bank in its 2016 monitoring report due to the lack of progress in completing the audits. To date, the Land Bank has provided its 2012 audit report to the City. There were no audit findings or concerns. The 2013 audit is currently underway.

We acknowledge the City's agreement on our position concerning the Land Bank's failure to complete audits in a timely manner. We also recognize the City's efforts to issue sanctions until all outstanding (2012-2016) audits are completed. As mentioned in our report, the City did not impose these sanctions until after we informed them of the options available in the regulations. The City should make sure each audit report is provided to HUD to clear the recommendation during the audit resolution process.

Comment 4 The City acknowledged the Land Bank did not maintain financial documentation for the properties in the property case files but did maintain the required acquisition and disposition documentation in the property case files. The City

also stated that although it was not required by Federal regulations to maintain the files by property, this method was established by the subrecipient agreement.

We acknowledge the City's agreement that the Land Bank's financial documentation was not maintained in the case files by properties as required. Although it is not a Federal requirement to maintain the financial files by property, the City's agreement with the subrecipient required that adequate records be maintained in such a manner that they may be audited at any time during the contract period and 3 years afterwards.

Comment 5 The City stated that it understood how we came to our conclusion that the City did not properly administer the NSP1 and NSP3 programs. The City noted that the concerns cited in the report pertained to the Land Bank and was no reflection of the City's financial management system or record keeping procedures. The City also stated that the Land Bank provided eligible and proper supporting documentation when NSP expenses were submitted to them prior to payment.

Our review focused on the subrecipient's records and the City's oversight of the Land Bank. We did not review the City's records to make an assessment on its financial management system or record keeping procedures. Although the City determined that the expenses were eligible and supported at the time of payment, the financial records should be maintained in such a manner that they may be audited at any time during the contract period and 3 years afterwards.

Comment 6 The City accepted our recommendation to provided adequate monitoring to the Land Bank. The City is requiring the Land Bank to submit a transaction journal report and an accounts receivable report prior to the release of any funding. Additionally, all future monitoring of the Land Bank will include a review of the programmatic requirements, as well as policies and procedures, annual audits, financial management systems, and file management protocol.

We commend the City for recognizing the need for improving its monitoring of the Land Bank. We also acknowledge the extra measures the City is putting in place to ensure the subrecipient follows the required Federal regulations.

Comment 7 The City stated that the Land Bank presented updated financial and file management policies that address the concerns in our report. The City reviewed the policies and determined that they adequately addressed our concerns.

We acknowledge that the Land Bank updated its financial and file management policies and the City reviewed and approved the policies. The City should make sure the policies are provided to HUD to clear the recommendation during the audit resolution process.

Comment 8 The City stated that legislation has been prepared to reprogram the remaining NSP1 and NSP3 funds that were allocated to the Land Bank. The legislation should be approved in August 2017. The City will also submit an amendment to

the NSP1 and NSP3 action plan to remove the Land Bank as the designated responsible organization.

We acknowledge the City's action to reprogram the remaining funds as recommended. The City should make sure the documentation, once approved by the City Council, is provided to HUD to clear the recommendation during the audit resolution process.