



The City of Springfield, MA

Community Development Block Grant Disaster Recovery Assistance Funds

**Office of Audit, Region 1
Boston, MA**

**Audit Report Number: 2017-BO-1002
October 17, 2016**





To: Robert Shumeyko,
Director, Office of Community Planning and Development, 1AD

From: //Signed//
Ann Marie Henry
Acting Regional Inspector General for Audit, 1AGA

Subject: The City of Springfield, MA, Needs To Improve Its Compliance With Federal Regulations for Its Community Development Block Grant Disaster Recovery Assistance Grant

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the City of Springfield's Community Development Block Grant Disaster Recovery (CDBG-DR) assistance grant.

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 contact me at 617-994-8345.



Audit Report Number: 2017-BO-1002

Date: October 17, 2016

The City of Springfield, MA, Needs To Improve Its Compliance With Federal Regulations for Its Community Development Block Grant Disaster Recovery Assistance Grant

Highlights

What We Audited and Why

We audited the Community Development Block Grant Disaster Recovery (CDBG-DR) assistance grant provided to the City of Springfield, MA, by the U.S. Department of Housing and Urban Development (HUD) to assist in disaster recovery and rebuilding efforts resulting from damages caused by presidentially declared disasters. The audit objective was to determine whether the City properly followed Federal procurement requirements and whether payments to vendors were adequately supported.

What We Found

A review of approximately \$8.3 million, representing 60 percent of the \$13.9 million in CDBG-DR funds obligated, found that the funds were budgeted for eligible and HUD-approved activities. However, City officials did not ensure that more than \$1.9 million met Federal procurement requirements or payments to vendors were adequately supported. Further, the City did not always document the duplication of benefits in accordance with requirements.

What We Recommend

We recommend that HUD's Acting Deputy Assistant Secretary for Grant Programs instruct City officials to (1) provide evidence showing that more than \$1.4 million was spent for supported, necessary, and reasonable costs or repay HUD from non-Federal funds; (2) obtain support for \$472,246 or reprogram funds to other allowable activities; and (3) strengthen and follow procurement policies and financial and administrative controls to ensure compliance with Federal requirements.

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Background and Objective

In 2013, the U.S. Department of Housing and Urban Development (HUD) awarded the City of Springfield, MA, more than \$21.8 million in Community Development Block Grant Disaster Recovery (CDBG-DR) funds in response to multiple presidentially declared disasters in 2011, the most severe of which was a June 1, 2011, F3¹ tornado. In addition to the tornado, in 2011, the City endured two disastrous snow storms, the worst of which was a surprise October “nor’easter.” The City received another Presidential Disaster Declaration for damages caused by August 2011’s Hurricane Irene.

Before providing funds to a grantee, the Disaster Relief Appropriations Act of 2013 required the HUD Secretary to certify that the grantees maintained sufficient financial controls and procurement processes or procedures to identify any duplication of benefits; spent funds in a timely manner; maintained Web sites to inform the public of all disaster recovery activities; and prevented and detected fraud, waste, and abuse of funds.

In addition, the grantees were required to develop an action plan for public comment and HUD approval, which described (1) how the proposed use of the CDBG-DR funds would address long-term recovery needs; (2) activities for which funds could be used; (3) the citizen participation process used to develop, implement, and access the action plan; and (4) grant administration standards. HUD approved the City’s partial action plan and provided the City more than \$13.9 million in funds in December 2013. The City had drawn down and spent more than \$9.7 million as of March 2016. The Act requires that all funds be obligated by September 30, 2017, and disbursed within 2 years of obligation unless a waiver is obtained. The City’s request to extend some funds was granted in November 2015, and the City now has until December 13, 2018, to disburse these funds.

Our audit objective was to determine whether the City properly followed Federal procurement requirements and whether payments to vendors were adequately supported.

¹ The Fujita-Pearson scale or more popularly known as the F scale, is used to measure the intensity of a tornado based on the amount of damage done by a passing tornado over an area. F3 tornados have wind speeds between 158–206 mph, causes severe damage, and roofs are torn off even on well-constructed structures.

Results of Audit

Finding 1: The City's CDBG-DR Activities Were Not Always Properly Procured and Adequately Supported

The City did not always properly procure vendors in accordance with Federal requirements, and some payments to vendors were not adequately supported. Further, the City did not always properly document the duplication of benefits review in accordance with Federal requirements and City policies. These issues were caused by the City's weak policies and procedures and its noncompliance with existing policies and procedures for (1) procuring developers and contractors, (2) obtaining supporting documentation in compliance with City contracts, and (3) properly documenting the review and certification of the duplication of benefits. As a result, HUD lacked assurance that \$1.9 million in CDBG-DR funds was provided for supported, necessary, and reasonable costs.

CDBG-DR Funds Were Not Always Properly Supported, Necessary and Reasonable

Our review of 20 CDBG-DR activities found that the City did not always follow Federal procurement requirements and also did not always obtain adequate supporting documentation for payment requests. We attribute these deficiencies to the City's weak policies and procedures which did not ensure compliance with Federal procurement requirements and its noncompliance with the existing policies and procedures. As a result, the City incurred more than \$1.4 million² in unsupported costs and \$472,246³ in unexpended funds that could be reallocated to other eligible CDBG-DR activities (see table in appendix C). The details are described below.

Procurement of Vendors Was Not Always in Accordance With Federal Requirements

The City did not always ensure that vendors were procured in accordance with Federal requirements. The City did not always develop cost estimates or complete cost reasonableness reviews as required. As a result, the City was not able to support \$835,618 in expended funds and \$299,721 in budgeted funds may need to be reallocated to other eligible CDBG-DR activities.

For example, the City issued a request for proposals from developers for the construction of new single-family homes that would provide home ownership opportunities to low- and moderate-income buyers. However, it received only one responsive bid.⁴ The responsive developer submitted a proposal to complete six⁵ projects. According to the budget submitted by the

² The \$1.4 million includes \$835,618 not properly procured and \$613,045 not adequately supported.

³ The \$472,246 includes \$299,721 not properly procured and \$172,525 not adequately supported.

⁴ The City received a bid from a second bidder; however, the bidder was determined to be nonresponsive.

⁵ The developer requested funding for rehabilitation of one home; however, the City did not allow the rehabilitation since the funding was for new construction. Therefore, the City provided funding for only five homes.

developer, the total development cost for the five projects selected was more than \$1.8 million, of which the City committed more than \$1.1 million in CDBG-DR assistance. The City did not properly develop and document the cost estimate and cost reasonableness analysis for the projects.

Regulations at 24 CFR (Code of Federal Regulations) 85.36(f) state that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action, including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis is necessary when adequate price competition is lacking and for sole-source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis is used in all other instances to determine the reasonableness of the proposed contract price. Further, the Office of Management and Budget's cost principles at 2 CFR Part 225, appendix A, paragraph (C)(1)(a), require grantees to ensure that all costs incurred are reasonable and necessary for proper and efficient performance and administration of Federal awards.⁶

City officials stated that often the initial budget estimates provided by the developer were higher than the actual expenses but the higher budget ensured that there would be sufficient funds available. The City should provide funds based on a reasonable budget so as not to oversubsidize a project, and if additional funds are needed to complete the projects, change orders may be requested and processed as necessary. When total development costs are overstated and the sales prices are also understated on the developer's budget, the developer's subsidy is increased.

The developer budgeted the anticipated sales price of four of the five the projects at \$132,000 each, although the contract with the City stated that they would be priced to sell at or about \$150,000. The reduction in the sales price increased the CDBG-DR subsidy provided by the City by \$18,000 for each of the four projects, for a total of \$72,000. Therefore, the developer may receive more funds than necessary to complete the projects. Further, higher total development costs affect the amount of funds provided to the developer and may not be necessary or reasonable.

In addition, the total budgeted development costs submitted by the developer were sometimes more than two times the expected market value of the projects. In one instance, the total development budget submitted by the developer was \$377,775; however, the completed project was appraised at only \$190,000. Further, the developer sold the project for \$158,000. This does not appear to be a reasonable use of CDBG-DR funds.

⁶ As of December 26, 2014, this criteria can now be found at 2 CFR Part 200.403(a).

City officials stated that the reasonableness of the costs was reviewed when the project budget was submitted to ensure that it was in accordance with current building costs. However, we reviewed the budget and identified costs that did not appear to be reasonable or necessary. Specifically, three costs seemed duplicative or not necessary, while other costs seemed high. Specifically, the budget included estimates for three duplicate costs, (1) a cost certification and a third party cost review; (2) a developer fee and a clerk of the works fee; and (3) a developer fee and a consultant fee. When asked about the duplicative costs, City officials reviewed the budget and agreed that two of the three costs were duplicative and should not have been included in the budget. They stated that they would instruct the developer to not bill for the cost certification and clerk of the works costs. The City did not agree that the consultant's fee duplicated the developer's fee, however, according to the developer's contract with the consultant, many of the tasks were covered under the developer fee.⁷

Since the City did not (1) establish an adequate cost estimate of development costs before reviewing the bids, (2) obtain bids from multiple qualified developers, and (3) document a review of cost reasonableness, it may not have maximized its CDBG-DR funds and could have potentially helped to house more low- and moderate-income families. Therefore, we questioned \$827,118, the entire CDBG-DR contract amount paid to the developer for these five projects minus program income returned to the City, as unsupported, and the City may need to reallocate the remaining budgeted amount of \$299,721.

Further, the City provided cost estimates for two demolition projects but did not support how the cost estimates were established. Since the City obtained more than three bids for the demolition work and selected the lowest bidder to perform the work, the cost of the demolition for these two projects appeared to be reasonable. Therefore, we did not question the costs; however, we are concerned with the City's lack of documentation to support the cost estimates. The City needs to improve its process for documenting and supporting its cost estimates. Based on our inquiries regarding the City's lack of cost estimates and cost reasonableness reviews, City officials stated that in future projects they would make the cost estimates and cost reasonableness reviews formal steps in their underwriting process. City officials also stated that they would incorporate both of these analyses into their policies and procedures and document the analyses in the files.

The City also purchased two intact and undamaged school buildings located in the tornado zone to ensure the continuation and better functioning of two crucial educational facilities and meet needs for classroom space. The City hired two appraisers to determine the value of the schools before their purchase but did not properly procure the appraisers in accordance with 24 CFR 85.36(d) small purchase procedures. These procedures state that if small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources. City officials stated that they were exempt from this requirement because the appraisers were considered expert witnesses. However, the City did not provide support to document why they were considered expert witnesses and hired outside the procurement requirements.

⁷ All of these costs were included in the questioned costs.

Therefore, we considered the \$8,500 in CDBG-DR funds paid to the appraisers to be unsupported.

The City Did Not Always Obtain Adequate Support for Payments

The City did not always ensure that its vendors submitted adequate support for their payment requests. As a result, the City was not able to support that \$613,045 in expended funds and \$172,525 in budgeted funds may need to be reallocated to other eligible CDBG-DR activities.

The City did not obtain adequate support for the proposals and the invoices for the four on-call engineering contractors. For example, according to their contract, for each specific project, the contractor was required to submit proposals stating (1) the estimated staffing, number of man-hours for each profession, direct labor costs, other direct costs, and any other anticipated fees or costs; (2) the estimated lump-sum not-to-exceed fee supported by a list of tasks and the estimated cost for each task identified and listing job classifications and man-hours required in each job classification based on hourly rates submitted with the engineer's response to the request for qualifications; and (3) a detailed description and estimate of direct expenses the engineer will incur on the project without markup. Instead, the proposals submitted by the engineer stated tasks and a lump-sum fee only.

In addition, the four engineering contracts stated that the invoices must include a description specifying the goods delivered, work performed, services rendered, or other event initiating entitlement to payment. The contract also stated that the following documents must be attached to any invoice submitted by the engineer: a complete itemized listing of all employees, by name, with itemization of hours worked and hourly rate. Instead, the invoices were submitted and paid for lump-sum amounts based on the percentage of work completed. The amounts requested were not supported by the actual employees, hours, and rates on which their contracts were based and documentation that was required to process payments. Instead, the contractors requested and the City paid the entire estimated amounts with no support for actual costs. At the City's request, based on our audit, one of the engineers provided a worksheet listing the employee's name, title, and number of hours estimated per task and the hourly rates. However, they did not provide the actual number of hours worked per task to support the invoices. Therefore, we questioned \$613,045 paid to these four contractors as unsupported. The remaining budgeted amount of \$172,525 needs to be properly supported when requested or reallocated and put to better use.

Further, the contractor for the single-family projects discussed above submitted requests for payment with a certification of the work completed and listed the items in process or completed and a lump-sum amount. The amounts listed were round numbers (\$55,000, \$99,000). City officials stated that they reimbursed the developer only for actual expenses; however, no documentation was provided by the contractor or the City to show that these were actual costs.

Office of Management and Budget cost principles at 2 CFR Part 225, appendix A, paragraph (C)(1)(j), require grantees and their subrecipients to ensure that all costs incurred are adequately

documented.⁸ The City obtained additional documentation from the developer based on our audit, which itemized the work performed. However, the documentation did not support that the costs were reasonable and necessary. Therefore, the \$722,821⁹ paid to this contractor was not supported. These costs are included in the questioned costs in the procurement section above.

Duplication of Benefits Was Not Properly Documented

The City did not always properly document the duplication of benefits review as required. According to Federal Register 78 FR 14329 (March 5, 2013) and the City's CDBG-DR policies and procedures, the duplication of benefits review needed to be completed before awarding assistance. In two instances, the City did not document its duplication of benefits review until months after the funds were disbursed.

Further, the City did not perform a duplication of benefits review for the new construction of five projects. Four of the files included a memorandum from the U.S. Department of Homeland Security, Federal Emergency Management Agency, indicating that it was aware of the new construction; however, no additional duplication of benefits review was performed, and the City did not have the developer sign a certification agreeing to repay the assistance if it later received other disaster assistance for the same purpose. According to City officials, they did not believe this was necessary as the projects were vacant lots before the disaster. After our request, the City obtained signed affidavits from the developer for the five projects, certifying that no additional disaster funding was provided and agreeing to repay any funds received.

Conclusion

City officials did not always properly document procurement, ensure that payments to vendors were adequately supported, and document the duplication of benefits review. These issues were caused by weak City policies and procedures and officials' not complying with their existing policies and procedures for (1) procuring developers and contractors, (2) obtaining supporting documentation in compliance with City contracts, and (3) properly documenting the review and certification of the duplication of benefits. As a result, City officials did not ensure that more than \$1.9 million in Federal funds was supported, necessary, and reasonable.

Recommendations

We recommend that HUD's Acting Deputy Assistant Secretary for Grant Programs instruct City officials to

- 1A. Provide adequate documentation to support that \$1,448,663 in CDBG-DR funds was spent for supported, necessary and reasonable costs. Any amount for which adequate support cannot be provided should be repaid from non-Federal funds.

⁸ As of December 26, 2014, this criteria can now be found at 2 CFR Part 200.403(g).

⁹ This amount is the actual costs paid to the contractor for the five projects.

- 1B. Obtain adequate support to document the reasonableness and necessity of \$472,246 or reprogram the funds to other allowable activities, thus ensuring that the funds will be put to their intended use.
- 1C. Strengthen and follow its procurement policies to ensure that vendors are properly procured and cost estimates are performed and adequately supported before obtaining bids.
- 1D. Strengthen and follow its financial controls to ensure that the proper documentation is submitted with vendor payment requests to determine whether the costs are adequately supported, necessary, and reasonable.
- 1E. Strengthen and follow its administrative controls over the duplication of benefits to ensure that the review is performed before awarding CDBG-DR funds and beneficiaries certify that no duplicative funds have been provided and agree to repay assistance if funds are provided later.

Scope and Methodology

The audit generally covered the period June 1, 2011, through September 30, 2015, and was extended as needed. Audit fieldwork was performed from November 2015 through May 2016 at Springfield City Hall located at 36 Court Street, Springfield, MA.

To accomplish our audit objective, we

- Reviewed the Disaster Relief Appropriations Act of 2013, the implementing regulations, and HUD guidance pertaining to the use of CDBG-DR funds and the City's policies and procedures for administering the CDBG-DR grant.
- Obtained an understanding of the City's financial controls over CDBG-DR funds' obligation and disbursement.
- Interviewed City employees responsible for administering the disaster grant to document the City's policies and procedures for administering the CDBG-DR funds.
- Reviewed the City's action plan and amendments, quarterly disaster reports, and grant agreement with HUD to identify the CDBG-DR grant requirements.
- Reviewed HUD's monitoring report, dated October 9, 2014.
- Reviewed the City's financial statements ending June 30, 2011, June 30, 2012, June 30, 2013, and June 30, 2014.
- Reviewed various Disaster Recovery Grant Reporting system¹⁰ reports to document the City's activities and disbursements. Our assessment of the reliability of the data in this system was limited to data reviewed and reconciled with City records; therefore, we did not assess the reliability of this system. However, the data were sufficiently reliable for our purposes.
- Reviewed a sample of 20 of 59 activities to assess compliance with procurement requirements and support for payments of CDBG-DR funds. We reviewed more than \$8.3 million to which City officials had allocated 60 percent of more than \$13.9 million in CDBG-DR funds. The activities were selected based on risks identified with higher dollar costs per line item, risks with new construction, and risks identified with certain vendors and contractors during our review of the vouchers. We did not perform a statistical sample; therefore, our results were not projected.

¹⁰ The Disaster Recovery Grant Reporting system was developed by HUD's Office of Community Planning and Development for the CDBG-DR program and other special appropriations, such as the Neighborhood Stabilization Program. Grantees use this system to draw down funds and report program income.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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 comply with procurement policies to ensure that vendors were properly procured and cost estimates were performed and adequately supported before obtaining bids (finding).

- The City did not ensure that the proper documentation was submitted with vendor payment requests to determine whether the costs were adequately supported, necessary, and reasonable (finding).
- The City did not ensure that the duplication of benefits review was performed before awarding CDBG-DR funds and beneficiaries certified that no duplicative funds had been provided and agreed to repay assistance if funds were provided later (finding).

Appendixes

Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A	\$1,448,663	
1B		\$472,246

- 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 recommendations to determine the necessity and reasonableness of the \$472,246 in unspent allocated funds, it can assure HUD that these funds will be supported or properly put to better use.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

*Disaster Recovery &
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36 Court Street - Room 405
Springfield, MA 01103
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THE CITY OF
SPRINGFIELD, MASSACHUSETTS

September 28, 2016

Edward Jeye
Regional Inspector General for Audit
US Department of Housing and Urban Development – Office of Inspector General
10 Causeway St., Room 370
Boston, MA 0222-1092

RE: City of Springfield Response to Draft Audit Report 2016-BO-100X

Dear Mr. Jeye:

Thank you for providing a copy of the draft report on your audit of Springfield's CDBG-DR grant, and for meeting with the City at the exit conference on September 21, 2016 to discuss the report.

The audit raised concerns about contractor procurement documentation of contractors and adequate support for costs, and makes recommendations for providing more complete support for decisions and costs, and for improving City policies and procedures. The City takes its responsibility to properly spend and support public funds very seriously, so we appreciate your review and recommendations, and are already moving forward to implement the suggested changes.

This letter provides additional information about the concerns raised in the audit and details the specific actions the City is taking to resolve the concerns and prevent issues in the future. While the audit lists a single finding—that the City's CDBG-DR activities were not always properly procured and adequately supported—the draft audit raises several issues that fall under this category, and this letter addresses each one in turn. The letter concludes with the summary of the City's responsive actions.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

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PROCUREMENT AND COST ESTIMATES

The audit raises concerns regarding procurement and cost estimates in connection with a housing development project, two demolition projects, and the selection of appraisal firms. As indicated below, the City acknowledges lack of full documentation regarding these practices, which make its project files incomplete. The City will not only add documentation to the files involved, but will update its policies and practices in the future to ensure that proper documentation is included in every file.

Construction of New Single Family Homes

The City issued a Request for Proposals ("RFP") to develop multiple new single-family homes, for which it received two proposals, only one of which met the bidding requirements. The lack of competition raised a concern about review of cost estimates and review of cost reasonableness, with the audit concluding that the City did not properly develop and document cost estimates and cost reasonableness for the five homes which were developed pursuant to the RFP.

The City acknowledges that analysis of cost estimates and cost reasonableness was not documented in the files. However, as noted in the exit interview, the City did undertake a cost analysis for this project. The City's RFP for the project specifically included, as one of the six scoring factors, the category "*Financial Benefit and Maximizing the Use of Public Funds.*" Even though there were not multiple responsive bids, the City still evaluated the one responsive bid according to all criteria set forth in the RFP, including "*Financial Benefit and Maximizing the Use of Public Funds.*" The selected project scored "*Advantageous*" on this factor, where the possible scores were Highly Advantageous, Advantageous, Not Advantageous, and Non-Responsive. If the project had scored Not Advantageous or Non-Responsive on this or any other factor, the City would not have made an award at all, but would have re-bid the project. The RFP standard for meeting the "*Advantageous*" score required that "[t]he proposal offers moderate financial benefit for the City of Springfield (i.e. new tax revenue, highest and best use of public funding, leveraging other funding sources, etc.)."

The RFP Review Committee which evaluated and scored the proposal included the City's Director of Housing, [REDACTED] who has extensive experience in overseeing the disbursement of funds to developers to build over 25 first-time homebuyer homes since 2009, and has reviewed budgets and actual costs for each of those projects. Each of those projects was advertised for bid using an RFP process, and many had multiple respondents competing for the project. Most of the projects have been completed, providing comparative information regarding actual costs incurred and prices for which the homes sold. [REDACTED] experience with these comparable projects provided expertise necessary to independently compare and evaluate the costs estimates and cost reasonableness of the proposed project.

Comment 1

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 2

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The audit notes that some costs were estimated in the original budget as higher than the actual cost. The audit also questions the budget's use of a sales price of \$132,000, even though the contract mentions the preferred initial sales price at \$150,000. However, the actual contract language regarding the sales price is: "The Project Property shall initially be priced to sell at or about \$150,000. This amount may be adjusted down in the event that the Developer is unable to sell the property within a reasonable time period at this price, after having made diligent marketing efforts."

Comment 3

The audit cites underestimated costs and a budget sale price lower than the \$150,000 referenced in the contract to imply that these factors increased the subsidy to the developer. But this is not the case under the payment structure followed by the City, which is described in detail in the contract. The developer was not paid a set price for each house. Instead, the developer billed the City for actual demonstrated costs incurred in building the houses, plus a pre-set developer's fee, and the developer was required to account for the actual sales price of the property. The subsidy price paid per house was equal to the total actual development costs minus the sales prices. If costs were estimated too high in the budget, the City would keep the funds and apply them to the next project. Similarly, if the purchase price was higher than expected, the additional funds would be returned to the City to be applied to another project.

The reason that the City's contract with the developer required the developer to set a listing price that was higher than the budgeted sales price was that a critical goal of the project is stabilizing and revitalizing the neighborhood. The homes are being developed in the Six Corners neighborhood, an area with high poverty, low property values, and high rates of foreclosure and property abandonment. One of the City's strategies for the neighborhood was to improve the housing stock and thereby increase surrounding property values, so that owners throughout the neighborhood will be incentivized to stay, not to abandon properties. The City notes that neighborhood stabilization is a CDBG-funded activity championed by HUD through its Neighborhood Stabilization Program (which allocated CDBG-NSP funds to Springfield for this purpose), and in its National Disaster Resilience Competition, in which Springfield has been awarded CDBG-NDR funds for a program with this specific goal. In order to advance the goal of neighborhood revitalization, the homes sold at a price higher than the market price at the time the projects were bid. Both the City and the developer were making educated projections as to what the market prices would be once the higher quality construction of these and other houses being built in the same neighborhood around the same time (subsidized with other funding sources) were complete.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 4

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The goals of increasing property values and stabilizing the neighborhood also explain why the actual costs of development were more than actual sales prices. The costs reflected actual market costs for construction in the area, and the fact that actual construction costs were higher than market sales price would bear was the reason that no unsubsidized housing development was taking place in the neighborhood. The high rate of subsidy was required to make the housing development project viable and achieve the stated goals. Developers did not believe that the market value of a newly constructed house in the neighborhood would cover their construction costs, so there were no developers seeking to build in the neighborhood. While it may have been possible to build lower-quality homes more cheaply than those that were actually constructed, it would not have been possible to build such houses for less than market value. Further, a decision to build smaller or lesser quality homes would not have achieved the goal of neighborhood stabilization.

The City intends to address this audit concern by including an analysis in the file for each project house indicating the manner in which it determined that the cost estimates were reasonable. The City will also work with the developer to amend project budgets for projects not yet completed, to provide updated expected expenses and sales prices. The City acknowledges that this may result in less funds being committed to some projects. If this is the case, the City will reprogram the funds to other allowable projects in CDBG-DR Action Plan A. Further, the City will incorporate cost estimates and cost reasonableness reviews into its underwriting standards for all future development projects.

Demolition

The audit notes that two demolition projects did not include documentation of how cost estimates were established. Because the projects were competitively bid and the City selected the lowest of three bids submitted, the audit does not question the costs, but does raise the concern that there is a lack of documentation of cost estimates and cost reasonableness review.

As with housing development, it is important to note that the City's staff has extensive experience with funding demolition. [REDACTED] the City's Director of Disaster Recovery and Resiliency, has eleven years of experience in procuring and monitoring over 250 demolition projects. The City's review of competitive bids was conducted by a team that included [REDACTED] expertise to independently evaluate the reasonableness of the proposed costs. However, it is also true that the City did not document that this expertise was applied in review of these bids. Going forward, the City will formally incorporate cost estimates and cost reasonableness reviews into its subcontracting process and document the conclusions of these reviews in project files.

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Appraisals for the Purchase of School Buildings

The audit found the \$8,500 the City paid for two separate appraisal contracts to be unsupported because of a lack of evidence that the City obtained quotes from an adequate number of qualified sources prior to engaging the firms that conducted the appraisals and review appraisals, as required by 2 C.F.R. 200.320. At the time, the City believed that in the procurement of appraisal experts with contract values of \$4000 and \$4500 respectively, compliance with Mass. Gen. Laws ch. 30B, the Uniform Procurement Act which governs the procurement of goods and services by the City of Springfield, satisfied Federal procurement requirements. Under Mass. Gen. Laws ch. 30B, any contract with a value under \$10,000 does not require the solicitation of quotes, but merely requires the exercise of "sound business practices." Mass. Gen. Laws ch. 30B, sec 4(c).¹ Further, the City typically procures appraisal services as that of an "expert witness," which is exempt from procurement pursuant to Mass. Gen. Laws ch. 30B, section 1(b)(13).

Federal procurement law requires that, if "small purchases" (valued between \$3,000 and \$150,000) are used, price or rate quotations must be obtained from an "adequate number of qualified sources." While the City mistakenly believed that quotations were not required for this procurement, the City's actual practice in selecting and procuring the appraisal firms did in fact comply with the intent of the federal requirement. There are a limited number of appraisal firms that work in and have a good working knowledge of commercial property in Springfield, particularly in distressed neighborhoods, and the City works regularly with each of them. As a result, City staff knows that the five possible local appraisal firms each charge approximately \$2000-3000 per commercial property appraisal. The City generally rotates through the appraisal firms. In this case, one local firm was not eligible to do the appraisal due to a conflict because that firm had performed an appraisal on the subject property for seller. The City contacted the next appraisers on the rotating list, who indicated that the appraisals would cost \$2000 for the initial appraisals. The same process was followed for the review appraisals, also contacting the next appraisal firm on the list, and the cost for review appraisals was cited as \$2250 each. The City's experience in regularly procuring services from these experts provided the knowledge that these prices were on the low end of the market price and reasonable, so elected to retain those appraisers.

¹ The Massachusetts Chapter 30B Manual (2014) produced by the Massachusetts Office of Inspector General expands on the meaning of the requirement: "Sound business practices require you to ensure that your local jurisdiction receives the needed quality of supplies or services at a reasonable price by soliciting price lists or quotes for the items you are purchasing. For items you buy repetitively, you can periodically solicit price lists or quotes. You also should ensure that the supplies or services you are purchasing meet your quality requirements and that the vendor is reputable and capable."

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ADEQUATE SUPPORT FOR PAYMENTS

The audit questions the adequacy of support documentation that the City received from vendors prior to making payment. The City notes that, in all cases, the City received support documentation prior to making payment, but that it was not at the level of detail that the audit recommends. The City further notes that almost all of the projects cited are still in process, so files were not complete at the time the review was conducted. For the projects in question, the City has requested that vendors provide the detailed support documentation, which will be added to project files. Going forward, the City will amend its policies and procedures to require the recommended level of documentation for all invoiced costs and to establish that such costs were adequately supported, necessary and reasonable, pursuant to 2 C.F.R. 200.403, and will update and clarify the City's contract language in this regard.

On-Call Engineering Contractors

The City used services of four on-call engineering contracts. The engineering firms submitted proposals for various projects, and project orders were agreed upon for each project, including a scope of services, schedule, cost estimates, and a lump-sum compensation amount. The project orders set up an invoicing schedule based on the percentage of project completion at certain milestones, which is industry standard for bidding and paying engineering design project contracts that include a detailed defined scope of services.

Once a Project Order was completed and work commenced on various projects, the City's contract required detailed additional supporting documentation to be submitted with requests for payment, far beyond the industry standard. The City's standard contract used with each of the firms included language regarding different means of invoicing for services rendered. City departmental staff interpreted the language to mean that invoices could be supported by *one* of the listed methods, which was lump sum (not to exceed) amounts for percentages of work completed based on milestones. As noted above, this interpretation was made in the context of the industry standard for payment of design engineering services. However, upon closer reading, the contract actually requires that contractors submit invoices for lump sum payments, and also include detailed records regarding employees that worked on the project, with break out of hours and rates, to support the amount of the invoice. As noted by the auditors at the exit conference, these are not HUD requirements, but requirements imposed in the City contracts.

As mentioned in the audit report, the City provided this information for the firm requested by the auditors. The City has now requested that the other three firms submit the back-up staff documentation to support the lump-sum amounts billed and paid. Going forward, the City will clarify its contract language, and update and revise its policies and procedures, to ensure that contractors are submitting all supporting documentation with their invoices, and staff is carefully

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reviewing such documentation, so that payments do not exceed the actual costs incurred, and are adequately supported, reasonable and necessary, pursuant to 2 CFR 200.403.

Construction of New Single-Family Homes

The developer of the homes discussed above submitted invoices to the City which contained copies of bills from the general contractor, and the City made payment based upon this documentation. The audit points out that the general contractor's invoices were not supported by invoices from subcontractors, receipts for materials, and records of payment for labor.

The City has requested that the developer provide the requested back-up and the developer has indicated that he will do so. Going forward, the City will amend its policies and procedures to make clear that a general contractor's invoices must be backed up by the proper documentation.

DOCUMENTATION OF DUPLICATION OF BENEFITS REVIEW

CDBG-DR funds may not be used to duplicate other funds received for the same purpose, and project recipients must sign a certification agreeing to repay duplicate assistance if other funds are later received. This process is detailed in the City's existing written policies and procedures. The City understood this clear mandate in its housing repair program, in which there was the possibility of a property owner receiving FEMA and/or insurance funds, and also seeking CDBG-DR funds. However, it was not immediately clear that the duplication of benefits review and certification were necessary where a property owner had not incurred disaster damage—for example, because the property was a vacant lot. Initially, the City did not undertake the review and seek the certification in these instances. However, after starting its program, the City realized that the review and certification were necessary on every project, and obtained the documentation on projects that were already in process.

At this time, all projects have been properly reviewed and all have certifications signed. However, this step should have been completed before any funds were expended, and it was not. Going forward, the City is amending its policies and procedures to require duplication of benefits review and certification in all cases prior to any expenditure of CDBG-DR funds.

SUMMARY OF RECOMMENDATIONS AND CITY'S ACTIONS TAKEN IN RESPONSE

The draft audit report recommends that HUD's Acting Deputy Assistant Secretary for Grant Programs instruct City officials to take the actions in bold below. Prior to receiving this

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instruction from the Acting Secretary, the City is already taking the steps described below each recommendation.

1A. Provide adequate documentation to support that \$1,448,663 in CDBG-DR funds was spent for supported, necessary and reasonable costs.

As described above, the City is already collecting this documentation and will forward it to HUD.

1B. Obtain adequate support to document the reasonableness and necessity of \$472,246 or reprogram the funds to other allowable activities.

As described above, the City is already collecting this documentation and will forward it to HUD.

1C. Strengthen and follow procurement policies to ensure that vendors are properly procured and cost estimates are performed and adequately supported before obtaining bids.

As described above, the City is amending its policies and procedures concerning procurement and cost estimates and will send amended language to HUD for approval by October 14, 2016.

1D. Strengthen and follow its financial controls to ensure that the proper documentation is submitted with vendor payment requests to determine whether the costs are adequately supported, necessary, and reasonable.

As described above, the City is amending its financial control policies and procedures and will send amended language to HUD for approval by October 14, 2016.

1E. Strengthen and follow its administrative controls over the duplication of benefits to ensure that the review is performed before awarding CDBG-DR funds and beneficiaries certify that no duplicative funds have been provided and agree to repay assistance if funds are provided later.

As described above, the City is amending its CDBG-DR policies and procedures to make clear that duplication of benefits review and certification is required for every project, and will send amended language to HUD for approval by October 14, 2016.

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For all changes to policies and procedures, the City will distribute finalized changes to all staff involved with the CDBG-DR program to ensure that staff is aware of the requirements and comply with them.

The City believes that the actions outlined above will provide adequate documentation for all costs in the CDBG-DR program that are described as unsupported in the audit, and that changes to policies and procedures will ensure that all future costs are properly procured and adequately supported.

Sincerely,



Tina-Marie Quagliato
Director of Disaster Recovery & Resilience

OIG Evaluation of Auditee Comments

- Comment 1 In its response the City acknowledged that analysis of cost estimates and cost reasonableness was not documented in the files. However, it stated that a cost analysis was performed. In accordance with 24 CFR 85.36(f) "...as a starting point, grantees must make independent estimates before receiving bids or proposals." The City needs to ensure that it properly documents its independent estimate in the file to support the cost reasonableness of its projects.
- Comment 2 The City stated that contract included language that the property shall initially be priced to sell at or about \$150,000. However, the budget provided by the contractor was based on a sales price of \$132,000. While we agree that the price ultimately could be less than \$150,000, the original budget should have been based on the price planned in the contract not the reduced price.
- Comment 3 According to the City's response the developer was not paid a set price for each house, but rather paid for actual demonstrated costs incurred in building the houses plus a pre-set developer's fee. As a result, there was no incentive for the developer to keep the costs down because the developer would have to invest less of their own funds for the project. Further, as discussed in the report, the developer was billing for lump sum, round amounts for construction costs with no support that they were actual or reasonable costs.
- Comment 4 OIG agrees that increasing property values and stabilizing the neighborhood is important; however, we maintain our position that spending almost double the amount of the appraised value to develop a home does not seem reasonable.
- Comment 5 The City stated that it mistakenly believed that quotations were not required for this procurement. The City also stated that it used its normal practice for obtaining expert services including appraisers. However, the City needs to document its actions to meet Federal requirements.
- Comment 6 Overall, City officials agreed to collect supporting documentation for submission to HUD and to amend its CDBG-DR policies and procedures as recommended by OIG, which is responsive to our recommendations.

Appendix C

Schedule of Sampled Activities

	Vendor and activity	Amount obligated	Amount spent	Unsupported costs	Funds to be put to better use	Total questioned costs
1	Viva Development, LLC - NS Florence St.	\$245,775	\$245,775	\$199,520 ¹¹	\$0	\$199,520
2	Viva Development, LLC - 17 & 23 Beech St.	231,294	214,285	214,285	17,009	231,294
3	Viva Development, LLC - 323 Central St.	226,650	140,611	140,611	86,039	226,650
4	Viva Development, LLC - 329 Central St.	243,525	151,440	151,440	92,085	243,525
5	Viva Development, LLC - 350 Central St.	225,850	121,262	121,262	104,588	225,850
6	Weston & Sampson Engineers, Inc.	109,000	100,045	100,045	8,955	109,000
7	Alfred Benesch & Company	374,600	302,700	302,700	71,900	374,600
8	Fuss & O'Neill, Inc.	209,570	117,900	117,900	91,670	209,570
9	GZA Geoenvironmental, Inc.	59,840	59,840	59,840	0	59,840
10	GZA Geoenvironmental, Inc.	22,000	22,000	22,000	0	22,000
11	GZA Geoenvironmental, Inc.	10,560	10,560	10,560	0	10,560
12	Daly Appraisal Services	4,000	4,000	4,000	0	4,000
13	Commercial Appraisal Services, Inc.	4,500	4,500	4,500	0	4,500
14	Jay-Mor Enterprises, Inc. - 158-162 Rifle St.	73,900	73,900	0	0	0
15	Associated Building Wreckers, Inc. - NS Allen St.	2,700	2,700	0	0	0
16	Associated Building Wreckers, Inc. - NS Allen St	59,350	59,350	0	0	0
17	Palmer Paving Corporation	2,307,776	2,307,776	0	0	0
18	New England Concrete Services	603,248	603,248	0	0	0
19	Diocese of Springfield – 36 Margaret St.	2,600,000	2,600,000	0	0	0
20	Hamden Savings Bank – 91 School St.	760,000	760,000	0	0	0
	Totals	8,374,138	7,901,892	1,448,663	472,246	1,920,909

¹¹ The developer returned \$46,255 in program income. Therefore, this amount was subtracted from the amount of unsupported costs.