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Audit Report Number	2009-CH-1008
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TO: Jorgelle Lawson, Director of Community Planning and Development, 5ED

FROM: 
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The City of East Cleveland, Ohio, Did Not Adequately Manage Its HOME Investment Partnerships and Community Development Block Grant Programs

HIGHLIGHTS

What We Audited and Why

We audited the City of East Cleveland's (City) use of HOME Investment Partnerships (HOME) and Community Development Block Grant (Block Grant) program funds. The audit was part of the activities in our fiscal year 2008 annual audit plan. We selected the City based upon our analysis of risk factors relating to HOME grantees in Region V's jurisdiction and a request from the U.S. Department of Housing and Urban Development's (HUD) Columbus Office of Community Planning and Development. Our audit objectives were to determine whether the City effectively administered its HOME and Block Grant programs; appropriately disbursed HOME funds for owner-occupied, single-family residential rehabilitation projects (rehabilitation projects), community housing development organization projects (organization projects), and grant assistance program financing activities (financing activities); appropriately drew down and disbursed Block Grant funds; and followed HUD's requirements.

What We Found

The City did not effectively administer its HOME and Block Grant programs. It lacked documentation to support its use of nearly \$444,000 in HOME funds for 12 rehabilitation projects and four financing activities; inappropriately disbursed

nearly \$60,000 in HOME funds for a rehabilitation project that did not meet HUD's property standards requirements and had unused prepurchased construction materials for three organization projects; and provided nearly \$97,000 and committed more than \$24,000 in HOME funds for an improper organization project.

The City also failed to disburse Block Grant funds drawn down from its line of credit within a reasonable number of days and lacked documentation to support that it used Block Grant funds for appropriate expenses. As a result, HUD lost more than \$4,000 in interest on the more than \$183,000 in Block Grant funds that the City failed to disburse within a reasonable number of days, and the City was unable to support its use of nearly \$5,000 in Block Grant funds for eligible costs.

What We Recommend

We recommend that the Director of HUD's Columbus Office of Community Planning and Development require the City to (1) provide documentation or reimburse its HOME and Block Grant programs nearly \$449,000 from nonfederal funds for the unsupported payments, (2) reimburse its HOME and Block Grant programs more than \$156,000 from nonfederal funds for the improper use of funds, (3) decommit more than \$24,000 in HOME funds inappropriately committed for an organization project, (4) disburse or reimburse HUD for nearly \$32,000 in Block Grant funds not disbursed, (5) reimburse HUD more than \$4,000 from nonfederal funds for the interest HUD lost on the Block Grant funds that the City failed to disburse within a reasonable number of days of being drawn down from its line of credit, and (6) implement adequate procedures and controls to address the findings cited in this audit report.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft audit report and supporting schedules to the City's mayor and HUD's staff during the audit. We held an exit conference with the mayor and City staff on February 23, 2009.

We asked the City's mayor to provide comments on our discussion draft audit report by April 1, 2009. The mayor provided written comments, dated April 1, 2009. The mayor partially agreed with findings 1, 2, and 4 and disagreed with finding 3. The complete text of the written comments, except for property addresses for activities, a name of a Community Housing Network employee that

the mayor included in his comments, and 15 exhibits that were not necessary to understand the mayor's comments, along with our evaluation of that response, can be found in appendix B of this audit report. We provided the Director of HUD's Columbus Office of Community Planning and Development with a complete copy of the City's written comments plus the 15 exhibits of supporting documentation.

TABLE OF CONTENTS

Background and Objectives	5
Results of Audit	
Finding 1: Controls over the City’s HOME-Funded Rehabilitation Projects Were Inadequate	7
Finding 2: The City Lacked Adequate Controls over Its HOME-Funded Organization Projects	11
Finding 3: The City Needs to Improve Controls over Its HOME-Funded Financing Activities	15
Finding 4: The City Lacked Adequate Controls over Its Disbursement of Block Grant Funds	17
Scope and Methodology	21
Internal Controls	22
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	24
B. Auditee Comments and OIG’s Evaluation	25
C. Federal and City Requirements	42

BACKGROUND AND OBJECTIVES

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

The Block Grant program. Authorized under Title 1 of the Housing and Community Development Act of 1974, as amended, the Community Development Block Grant (Block Grant) program is funded to assist in the development of viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. All Block Grant activities must meet one of the following national objectives: benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet certain community development needs having a particular urgency.

The City. Organized under the laws of the State of Ohio, the City of East Cleveland (City) is governed by a mayor and a five-member council, elected to two-year terms. The City’s Department of Community Development (Department) administers the City’s HOME and Block Grant programs. The Department’s overall mission is to (1) use available resources to build a stable and economically viable community, (2) work to eliminate blighted conditions in areas suffering from a lack of investment, (3) direct available resources to benefit low- and moderate-income citizens and neighborhoods serving low- and moderate-income citizens, (4) and work to eliminate any conditions that pose a threat to public health and welfare, which the City does not otherwise have the available resources to address. The City’s mayor took office on January 1, 2006. The former director of the City’s Department resigned on May 16, 2008. At that time, the City’s mayor assumed oversight of the Department. The City had not hired a new director or named an acting director as of February 18, 2009. The City’s HOME and Block Grant program records are located at 13601 and 14340 Euclid Avenue, East Cleveland, Ohio.

The following table shows the amount of HOME and Block Grant funds the U.S. Department of Housing and Urban Development (HUD) awarded the City for its program years 2004 through 2008.

Program year	HOME funds	Block Grant funds
2004	\$514,427	\$1,339,000
2005	488,485	1,270,112
2006	282,738	1,144,036
2007	455,789	1,143,109
2008	<u>442,118</u>	<u>1,104,770</u>
Totals	<u>\$2,183,557</u>	<u>\$6,001,027</u>

The City awarded HOME funds to Community Housing Solutions as a nonprofit subrecipient to provide housing rehabilitation assistance for owner-occupied, single-family residential

rehabilitation projects (rehabilitation projects) and as a community housing development organization (organization) to acquire, rehabilitate, and sell vacant single-family housing for organization projects. The City provided HOME funds directly to home buyers to assist with downpayments and closing costs for grant assistance program financing activities (financing activities).

Our audit objectives were to determine whether the City effectively administered its HOME and Block Grant programs; appropriately disbursed HOME funds for rehabilitation projects, organization projects, and financing activities; appropriately drew down and disbursed Block Grant funds; and followed HUD's requirements.

RESULTS OF AUDIT

Finding 1: Controls over the City's HOME-Funded Rehabilitation Projects Were Inadequate

The City did not comply with HUD's regulations and/or its requirements (see appendix C of this audit report) in providing housing rehabilitation assistance for rehabilitation projects. It lacked sufficient documentation to support that rehabilitation projects were eligible and housing rehabilitation services were properly procured and provided assistance for an improper rehabilitation project because it lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and/or its requirements. As a result, it was unable to support its use of nearly \$334,000 in HOME funds for 12 rehabilitation projects and inappropriately provided nearly \$28,000 in HOME funds for a rehabilitation project that did not meet HUD's property standards requirements.

The City Lacked Documentation to Support Its Use of Nearly \$334,000 in HOME Funds for Rehabilitation Projects

We statistically selected for review drawdowns for 14 of the City's HOME-funded, owner-occupied, single-family residential rehabilitation projects (rehabilitation projects). The City drew down \$388,735 in HOME funds for the 14 rehabilitation projects from October 2002 through February 2008. Contrary to HUD's regulations and/or the City's requirements, the City lacked documentation for 12 of the 14 rehabilitation projects to support that it used \$333,618 in HOME funds for appropriate rehabilitation projects. The files for the 12 rehabilitation projects were missing and/or had incomplete documentation as follows:

- ❖ Seven were missing or had incomplete proof of hazard insurance,
- ❖ Six were missing prerehabilitation appraisals for the after-rehabilitation value of homes to show that the projects qualified as affordable housing,
- ❖ Five were missing final inspection reports or certifications supporting that the projects met HUD's property standards requirements,
- ❖ Four were missing sufficient income documentation to demonstrate that households were income eligible,
- ❖ Four were missing or had incomplete homeowner applications for assistance,
- ❖ Three were missing sufficient documentation to support that households were current on their mortgage payments,
- ❖ One was missing a contract between the contractor and homeowner,

- ❖ One was missing sufficient documentation to support that the households were current on their property taxes, and
- ❖ One was missing written manufacturers' and/or suppliers' guarantees and warranties covering materials and/or equipment furnished under the housing rehabilitation contract's standard terms and conditions (contract) between the contractors and homeowners.

In addition, the City did not establish and select households from an applicant waiting list.

The City Lacked Documentation to Support the Procurement of Housing Rehabilitation Services

The City also lacked documentation to support that Community Housing Solutions awarded housing rehabilitation services for rehabilitation project number 1186 through full and open competition after it removed the original contractor from the rehabilitation project. The City used \$24,302 in HOME funds to pay for the housing rehabilitation assistance. Further, it could not provide properly executed change orders for \$7,017 in HOME funds used for housing rehabilitation assistance for three rehabilitation projects. The following table shows the amount of HOME funds used for housing rehabilitation assistance without sufficient change orders for the three rehabilitation projects.

<i>Rehabilitation project number</i>	<i>Housing assistance amount</i>
1072	\$3,700
1220	2,517
1065	<u>800</u>
Total	<u>\$7,017</u>

The City Provided Nearly \$28,000 in HOME Funds for an Improper Rehabilitation Project

The City used \$27,699 in HOME funds from May 2003 through March 2004 for rehabilitation project number 990. In June 2003, a professional engineering firm reported that there was structural damage to the project's basement walls. However, the City did not ensure that the damage to the basement walls was included in the housing rehabilitation work. Therefore, the rehabilitation project did not meet HUD's property standards requirements after the housing rehabilitation assistance was completed in March 2004. In August 2005, the City approved Community

Housing Solutions to acquire the property from the homeowner and provide additional housing rehabilitation assistance under organization project number 838. As of November 2008, an additional \$96,763 in HOME funds had been used to acquire and provide additional housing rehabilitation assistance for the property as an organization project (see finding 2 in this report).

The City's Procedures and Controls Had Weaknesses

The weaknesses regarding the City's lack of documentation to support that rehabilitation projects were appropriate, lack of documentation to support the procurement of housing rehabilitation services, and assistance for inappropriate rehabilitation projects occurred because the City lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and/or its requirements. The City did not ensure that it fully implemented HUD's regulations and its requirements.

The City did not adequately monitor Community Housing Solutions to ensure that HOME funds were used appropriately. The Department's deputy director said that she did not know why the City lacked supporting documentation for the rehabilitation projects. However, the City maintained documentation for the rehabilitation projects in many different locations, and the documentation may have been in other rehabilitation project files. Further, the City's managers did not review the files for the rehabilitation projects to ensure that the City's staff obtained sufficient documentation to support that rehabilitation projects were eligible for assistance. In addition, the City lacked written policies and procedures regarding the required documentation to be maintained in its files for the rehabilitation projects. The deputy director said that the City updating its written policies and procedures to ensure that it maintains the appropriate documentation for the rehabilitation projects.

The Department's deputy director issued an internal memorandum to the Department's former director regarding her concern that the housing rehabilitation services for rehabilitation project number 1186 were not awarded through full and open competition. However, as of March 11, 2009, the deputy director had not been able to explain what changes had occurred as a result of the internal memorandum. The director of the City's law department said that the change orders for rehabilitation project numbers 1072, 1220, and 1065 were not provided to the law department for review.

The Department's executive assistant said that the Department's inspector who inspected rehabilitation project number 990 was not qualified for the position and was no longer employed by the City. The Department's former director stated that HOME funds were used for the rehabilitation project since the City decided to purchase and provide additional housing rehabilitation assistance for the

property as an organization project to save the value of the investment in the property that had already been made.

Conclusion

The City did not properly use its HOME funds when it failed to comply with HUD's regulations and/or its requirements. As previously mentioned, the City was unable to support its use of nearly \$334,000 in HOME funds for 12 rehabilitation projects and provided nearly \$28,000 in HOME funds for a rehabilitation project that did not meet HUD's property standards requirements.

Recommendations

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

- 1A. Provide supporting documentation or reimburse its HOME program from nonfederal funds, as appropriate, for the \$333,618 in HOME funds used for the 12 rehabilitation projects for which the City lacked sufficient documentation to support compliance with HUD's regulations and/or its requirements.
- 1B. Reimburse its HOME program \$27,699 from nonfederal funds for the HOME funds used to assist the rehabilitation project cited in this finding that did not meet HUD's property standards requirements.
- 1C. Implement adequate procedures and controls to ensure that HOME funds are used for eligible rehabilitation projects and the procurement of housing rehabilitation services complies with HUD's regulations and/or its requirements. The procedures and controls should include but not be limited to implementing adequate written policies and procedures to ensure that supervisors (1) perform quality control reviews of files to ensure that the rehabilitation projects are eligible for assistance and (2) maintain sufficient supporting documentation in the City's files.

Finding 2: The City Lacked Adequate Controls over Its HOME-Funded Organization Projects

The City did not comply with federal requirements and/or its set-aside agreement (agreement) with Community Housing Solutions (see appendix C of this audit report) in providing assistance for organization projects. It improperly disbursed HOME funds for unused prepurchased construction materials for organization projects and provided assistance for an inappropriate organization project because it lacked adequate procedures and controls to ensure that it appropriately followed federal requirements and/or its agreement with Community Housing Solutions. As a result, it inappropriately used nearly \$32,000 in HOME funds for three organization projects and provided nearly \$97,000 and committed more than \$24,000 in HOME funds for an improper organization project.

The City Inappropriately Used Nearly \$32,000 in HOME Funds for Organization Projects

We statistically selected for review drawdowns for the City’s HOME-funded organization operating costs and five of the City’s HOME-funded organization projects. The City drew down \$125,831 in HOME funds for the organization operating costs and organization projects from May 2006 through January 2008. It inappropriately disbursed \$31,997 of the HOME funds (\$27,824 for prepurchased construction materials and \$4,173 for administrative fees) to Community Housing Solutions for three organization projects. The City’s mayor stated that the prepurchased construction materials had not been used and were in storage as of April 1, 2009. Further, the City could not provide sufficient documentation to support the cost of the prepurchased construction materials. Therefore, it also could not support the administrative fees it paid to Community Housing Solutions for the materials. The following table shows the organization project number, voucher number, drawdown date, and amount of HOME funds that the City disbursed for the prepurchased construction materials and administrative fees.

<i>Project number</i>	<i>Voucher number</i>	<i>Date of draw down</i>	<i>HOME funds</i>
983	1309047	August 15, 2006	\$2,995
1184	1309047	August 15, 2006	14,501
1196	1314828	August 30, 2006	14,501
Total			<u>\$31,997</u>

The City Provided Nearly \$97,000 in HOME Funds for an Improper Organization Project

The City inappropriately used \$96,763 in HOME funds when it drew down and disbursed the funds to Community Housing Solutions to acquire and provide housing rehabilitation assistance for organization project number 838. As stated in finding 1 of this audit report, the City inappropriately used \$27,699 in HOME funds from May 2003 through March 2004 for rehabilitation project number 990 when it did not ensure that the rehabilitation project met HUD's property standards requirements after the housing rehabilitation assistance was completed in March 2004. In August 2005, the City approved Community Housing Solutions to acquire the property from the homeowner and provide additional housing rehabilitation assistance under organization project number 838. However, the City's agreement with Community Housing Solutions only allowed Community Housing Solutions to acquire, rehabilitate, and sell vacant single-family housing. As of November 2008, an additional \$96,763 in HOME funds had been used to acquire and provide additional housing rehabilitation assistance for the property as an organization project. Further, the City had committed an additional \$24,223 in HOME funds in HUD's Integrated Disbursement and Information System (System) for the organization project as of February 2009.

The City's Procedures and Controls Had Weaknesses

The weaknesses regarding the City's lack of documentation to support the cost of the prepurchased construction materials and whether all of the materials were used for the organization projects and assistance for an inappropriate organization project occurred because the City lacked adequate procedures and controls to ensure that it appropriately followed federal requirements and/or its own agreement with Community Housing Solutions.

The Department's deputy director said that the City believed that the documentation to support the cost of the prepurchased construction materials was sufficient. The City did not adequately monitor Community Housing Solutions to ensure that HOME funds were used appropriately for prepurchased construction materials. Further, it lacked written policies and procedures regarding the documentation that Community Housing Solutions needed to provide to support the cost of the materials and whether all of the materials were used for organization projects.

In addition, the City failed to ensure that Community Housing Solutions created a citizen advisory committee (committee) as required by its agreement with Community Housing Solutions.

Since the City did not ensure that rehabilitation project number 990 met HUD's property standards requirements after the housing rehabilitation assistance was completed, it felt an obligation to the homeowner to acquire the property and provide additional housing rehabilitation assistance under organization project number 838. It could not explain why it used HOME funds for the organization project since the Department's three former directors who approved the organization project and/or disbursements of HOME funds for the organization project resigned. The most recent former director resigned on May 16, 2008.

Conclusion

The City did not properly use its HOME funds when it failed to comply with federal requirements and/or its agreement with Community Housing Solutions. As previously mentioned, the City inappropriately used nearly \$32,000 in HOME funds for three organization projects and provided nearly \$97,000 and committed more than \$24,000 in HOME funds for an improper organization project.

Recommendations

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

- 2A. Reimburse its HOME program \$31,997 from nonfederal funds for the HOME funds disbursed for unused prepurchased construction materials for the three organization projects.
- 2B. Reimburse its HOME program \$96,763 from nonfederal funds for the HOME funds used to acquire and provide housing rehabilitation assistance for the organization project cited in this finding that was contrary to its agreement with Community Housing Solutions.
- 2C. Close out and decommit the \$24,223 in HOME funds inappropriately committed in HUD's System for the organization project cited in this finding that was contrary to its agreement with Community Housing Solutions.
- 2D. Implement adequate procedures and controls for maintaining sufficient supporting documentation for prepurchased construction materials and only allowing Community Housing Solutions to acquire, rehabilitate, and sell vacant single-family housing to ensure that HOME funds are used for appropriate organization projects. The procedures and controls should include but not be limited to implementing adequate written policies and procedures for obtaining sufficient documentation from community housing development organizations to support the cost of the prepurchased

construction materials and whether all of the materials are used for organization projects.

- 2E. Ensure that Community Housing Solutions creates a committee in accordance with the City's agreement with Community Housing Solutions.

Finding 3: The City Needs To Improve Controls over Its HOME-Funded Financing Activities

The City lacked documentation to support that it followed federal requirements and/or its codified ordinances (see appendix C of this audit report) in providing downpayments and closing costs for financing activities. The weaknesses occurred because the City lacked adequate procedures and controls to ensure that it used HOME funds for appropriate financing activities and maintained adequate documentation. As a result, HUD and the City lacked assurance that \$110,000 in HOME funds was used efficiently and effectively and in accordance with federal requirements and/or the City's codified ordinances.

The City Lacked Documentation to Support Its Use of \$110,000 in HOME Funds for Financing Activities

We statistically selected for review drawdowns for seven of the City's HOME-funded financing activities. The City drew down \$190,000 in HOME funds for the seven financing activities from March 2006 through December 2007. It lacked documentation for four of the seven financing activities to support that it followed federal requirements and/or its codified ordinances when it provided \$110,000 in HOME funds to assist home buyers with downpayments and closing costs. The files for the four financing activities were missing documentation as follows:

- ❖ Three were missing the contractor's certificate of tax registration,
- ❖ Two were missing the contractor's building permit, and
- ❖ One was missing environmental review documentation.

Conclusion

The weaknesses regarding the City's lack of documentation to support that financing activities were appropriate occurred because the City lacked adequate procedures and controls to ensure that it appropriately followed federal requirements and/or its own requirements.

The Department's executive assistant said that the City maintained documentation for the financing activities in many different locations and was certain that the City would eventually be able to provide the documentation. However, it had not provided the documentation to support the financing activities as of March 11, 2009. The City's managers did not review the files for the financing activities to ensure that the City's staff obtained sufficient documentation to support that financing activities were appropriate for assistance. Further, the City lacked

written policies and procedures regarding the required documentation to be maintained in its files for the financing activities. The deputy director said that the City was updating its written policies and procedures to ensure that it maintained the appropriate documentation for the financing activities.

As a result, HUD and the City lacked assurance that the City used \$110,000 in HOME funds to assist home buyers with downpayments and closing costs for appropriate financing activities.

Recommendations

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

- 3A. Provide supporting documentation or reimburse its HOME program from nonfederal funds, as appropriate, for the \$110,000 in HOME funds used for the four activities for which the City lacked sufficient documentation to support compliance with federal requirements and/or its codified ordinances.
- 3B. Implement adequate procedures and controls for maintaining sufficient supporting documentation to ensure that HOME funds are used for appropriate activities. The procedures and controls should include but not be limited to implementing adequate written policies and procedures to ensure that supervisors (1) perform quality control reviews of the files to ensure that the financing activities are appropriate for assistance and (2) maintain sufficient supporting documentation in the files.

Finding 4: The City Lacked Adequate Controls over Its Disbursement of Block Grant Funds

The City did not always comply with federal requirements (see appendix C of this audit report) in its disbursement of Block Grant funds that it drew down from its line of credit. It failed to disburse Block Grant funds drawn down from its line of credit within a reasonable number of days and lacked documentation to support that it used Block Grant funds for appropriate expenses because it lacked procedures and controls to ensure that federal requirements were appropriately followed. As a result, HUD lost more than \$4,000 in interest on the more than \$183,000 in Block Grant funds that the City failed to disburse within a reasonable number of days, and the City was unable to support its use of nearly \$5,000 in Block Grant funds for appropriate expenses.

The City Did Not Disburse More Than \$183,000 in Block Grant Funds in a Timely Manner

We statistically selected for review 64 of the City's drawdowns of Block Grant funds from its line of credit for the period January 2006 through February 2008. The drawdowns totaled more than \$1.1 million in Block Grant funds.

HUD's regulations require that an entitlement community make drawdowns of Block Grant funds as close as possible to the time of making disbursements. HUD's policy is that Block Grant funds drawn down from an entitlement community's line of credit in advance must be disbursed within a reasonable number of days. The City disbursed 53 of the drawdowns totaling nearly \$955,000 (83.8 percent) in Block Grant funds within five days. Therefore, the reasonable number of days for the City to disburse Block Grant funds was five days. However, the City failed to disburse the remaining 11 drawdowns totaling more than \$183,000 (16.2 percent) in Block Grant funds within six days. As of October 3, 2008, it had not disbursed \$31,670 drawn down on February 10, 2006. It did not disburse the remaining Block Grant funds for eligible program costs for 7 to 88 days after it drew down the funds from its line of credit. Further, it did not return to HUD any of the Block Grant funds or interest earned on the funds after the fifth day. Therefore, HUD lost more than \$4,000 in interest on the more than \$183,000 in Block Grant funds that the City failed to disburse within five days. The following table shows the voucher number, drawdown date, disbursement date, amount of Block Grant funds, and amount of interest HUD lost for the drawdowns that were not disbursed within a reasonable number of days.

<i>Voucher number</i>	<i>Date of drawdown</i>	<i>Date of disbursement</i>	<i>Block Grant funds</i>	<i>Lost interest</i>
1238877	February 10, 2006	Not applicable	\$31,670	\$3,974
1251522	March 16, 2006	June 12, 2006	53	1
1260096	April 7, 2006	May 1, 2006	39,419	107
1273215	May 15, 2006	May 22, 2006	79,382	23
1273215	May 15, 2006	May 30, 2006	388	1
1282319	June 7, 2006	June 28, 2006	22,554	53
1288848	June 23, 2006	July 5, 2006	431	0
1289851	June 28, 2006	July 5, 2006	515	0
1371388	February 8, 2007	February 15, 2007	4,576	1
1371372	February 8, 2007	February 28, 2007	130	0
1433150	July 30, 2007	August 31, 2007	4,300	16
1445772	September 4, 2007	October 4, 2007	41	0
Totals			<u>\$183,459</u>	<u>\$4,176</u>

We were conservative in our determination of the amount of interest HUD lost. We based our calculation on the 10-year United States Treasury rate using simple interest on the Block Grant funds from the sixth day after the funds were drawn down to the date on which the funds were used for appropriate program expenses.

The City Lacked Documentation to Support Its Use of Nearly \$5,000 in Block Grant Funds

The City lacked sufficient documentation to support that it used an additional \$4,941 in Block Grant funds from May 2006 through November 2007 for appropriate program costs. The unsupported disbursements were for salaries, youth and heating and air conditioning services, and transportation. The table below shows the following for the unsupported disbursements: cost category, dates Block Grant funds were disbursed, and amounts of Block Grant funds disbursed.

Cost category	Period of disbursements	Block Grant funds
Salaries	May 2006 through November 2007	\$3,946
Youth services	February 2007	814
Heating and air conditioning services	October 2006	118
Transportation	June 2007	63
Total		<u>\$4,941</u>

The City also lacked sufficient documentation to support \$2,604 of the \$31,670 it had drawn down but had not disbursed as of October 3, 2008.

The City's Procedures and Controls Had Weaknesses

The weaknesses regarding the City's lack of timeliness in disbursing Block Grant funds, use of Block Grant funds for inappropriate expenses, and lack of documentation to support that it used Block Grant funds for proper expenses occurred because the City lacked adequate procedures and controls to ensure that it appropriately followed federal requirements.

The director of the City's Department of Finance said that he was aware that Block Grant funds drawn down from the City's line of credit must be expended for appropriate expenses within three days. However, as the director, he had many responsibilities, including the resolution of urgent issues on a daily basis, and ensuring that Block Grant funds were disbursed within three days did not always take priority over his other responsibilities. Therefore, he did not always ensure that the City disbursed Block Grant funds in a timely manner.

In addition, the Department's deputy director said that the Department's staff did not have sufficient access to the City's accounting system to determine whether the Block Grant funds were disbursed in a timely manner. The Department was attempting to obtain sufficient access to the City's accounting system.

The deputy director said that the reason for the unsupported salaries was that employees did not consistently clock in and out using their time cards and that the former director of the Department did not always sign off on the employees' handwritten adjustments to the time cards. The City believed that the other unsupported Block Grant program costs were appropriate since the expenses were part of its contracts with organizations. The City did not realize that it needed supporting documentation for the program expenses.

Conclusion

The City did not properly use its Block Grant funds when it failed to comply with federal requirements. As previously mentioned, HUD lost more than \$4,000 in interest on the more than \$183,000 in Block Grant funds that the City failed to disburse within five days and the City was unable to support its use of nearly \$5,000 in Block Grant funds for appropriate expenses.

Recommendations

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

- 4A. Disburse the \$31,670 in Block Grant funds cited in this finding for appropriate expenses or reimburse HUD \$31,670 for the Block Grant funds it has not disbursed. If the City disburses the funds, it will need to provide sufficient supporting documentation for \$2,604 of the \$31,670 in Block Grant funds.
- 4B. Reimburse HUD \$4,176 from nonfederal funds for the interest HUD lost on the Block Grant funds that the City failed to disburse within a reasonable number of days of being drawn down from its line of credit.
- 4C. Provide sufficient supporting documentation or reimburse its Block Grant program from nonfederal funds, as appropriate, for the \$4,941 in Block Grant funds used for unsupported costs cited in this finding.
- 4D. Implement adequate procedures and controls for disbursing drawdowns of Block Grant funds within a reasonable number of days and maintaining sufficient supporting documentation to ensure that it appropriately disburses Block Grant funds for appropriate program expenses. The procedures and controls should include but not be limited to implementing adequate written policies and procedures to ensure that Block Grant funds are disbursed within five days of being drawn down and that the City obtains sufficient documentation for its Block Grant program expenses.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws; HUD’s regulations at 24 CFR [*Code of Federal Regulations*] Parts 85, 91, 92, and 570; HUD’s Office of Community Planning and Development notices; HUD’s “Building HOME: A Program Primer”; HUD’s HOMEfires; Office of Management and Budget Circulars A-87 and A-122; and HUD’s HOME and Block Grant agreements with the City.
- The City’s accounting records; annual audited financial statements; data from HUD’s System; HOME and Block Grant program, rehabilitation, and organization project and financing activity files; computerized databases; policies; procedures; codified ordinances; council meeting minutes; consolidated community development plan; annual action plans; and consolidated annual performance and evaluation reports.

We also interviewed the City’s employees, Community Housing Solutions’ employees, and HUD staff.

Findings 1, 2, 3, and 4

Using data mining software, we statistically selected 95 of the City’s 713 drawdowns of HOME and Block Grant funds in HUD’s System for the period January 1, 2006, through February 29, 2008. The 95 draw downs (15 for 14 HOME-funded rehabilitation projects, nine for HOME-funded organization operating costs and five organization projects, seven for seven HOME-funded financing activities, and 64 for Block Grant costs) were selected to determine whether the City effectively administered its HOME and Block Grant programs and appropriately drew down and disbursed HOME and Block Grant funds.

We performed our on-site audit work from April through October 2008 at the City’s offices located at 13601 and 14340 Euclid Avenue, East Cleveland, Ohio. The audit covered the period January 2006 through February 2008 and was expanded as determined necessary.

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

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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 objectives:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - 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 laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- 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 significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

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

- The City lacked adequate procedures and controls to ensure that it complied with federal and/or its requirements in regard to providing HOME funds for eligible rehabilitation and organization projects and financing activities and drawing down and disbursing Block Grant funds for appropriate expenses (see findings 1, 2, 3, and 4).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$333,618	
1B	\$27,699		
2A	31,997		
2B	96,763		
2C			\$24,223
3A		110,000	
4A			<u>31,670</u>
4B	<u>4,176</u>		
4C		<u>4,941</u>	
Totals	<u>\$160,635</u>	<u>\$448,559</u>	<u>\$55,893</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.

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

- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In these instances, if the City implements our recommendations, it will cease using HOME funds for an improper project and use Block Grant funds for appropriate expenses.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comments 1
and 2

Comment 3

Comment 4



The City of East Cleveland

"Home of John D. Rockefeller – The World's First Billionaire"
THE HONORABLE ERIC J. BREWER, MAYOR



April 1, 2009

Heath Wolfe, Regional Inspector General for Audit, Region V
U.S. Department of Housing & Urban Development / OIG
77 West Jackson Boulevard, Ste 2646
Chicago, IL 60604-3507

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CHICAGO, ILLINOIS
HUD - OIG

Mr. Wolfe:

Enclosed is the City of East Cleveland's **initial** response to the HUD / OIG audit of its CDBG and HOME program. Let me say that the City welcomed the audit at its onset and saw it as an opportunity to gain a valuable outside perspective of how employees and officials were complying with local, state and federal laws and policies. The audit and the information it uncovered have been extremely beneficial.

Auditor Kathy Crago was helpful and professional. Her probing questions, and the fact that she personally kept me informed along the way, provided the City with an opportunity to make "immediate" management and policy changes as soon as discrepancies were identified. I strongly believe the audit has and will continue to help the City shape its thinking so that federally-supported programs are better managed.

The City further believes that it is both extreme and unreasonable to require it to reimburse its HOME program from non-federal funds. We appreciate the fact that there is no recommendation to reimburse HUD, which we believe acknowledges the reality that East Cleveland "needs" the money. But using local funds to reimburse a federal program because a negligent employee failed to place checks in square boxes, neglected to fill-in all blanks or left a piece of paper out of a file is not helpful, especially since the funds were indeed spent to achieve HUD's broad national objective of reducing the impact of slum and blight. Despite the employee's negligence, people were helped.

I think it is equally important to note that "**the same** HUD employees" have monitored the City's federally-funded programs on an annual basis. Robert Milburn, a HUD employee who has monitored the City for at least 10 years, **never** made note or informed the City in writing of the discrepancies that we're now being held accountable for and told us they were problems. The City has attached Milburn's monitoring letters as exhibits. If the City can't rely on HUD's "experts" – employees who are supposed to be knowledgeable enough to assist us in complying with federal regulations - then who helps us when they fail?

Please consider this letter to be the City's first response to the HUD / OIG audit. We will continue to review the audit and work to identify more information that supports our belief that we should be cited, but not required to use City funds to reimburse federal programs. Any assistance you can provide in helping us achieve that goal will be much appreciated.

Sincerely,

The Honorable Eric J. Brewer, Mayor

14340 Euclid Avenue • East Cleveland, Ohio 44112 City Hall: Phone (216) 681-5020 • Fax (216) 681-2650
Website: eastcleveland.org

**CITY OF EAST CLEVELAND
NARRATIVE RESPONSES**

Finding 1: Controls over the City's HOME-Funded Rehabilitation Projects Were Inadequate

The City did not comply with HUD's regulations and/or its requirements in providing housing rehabilitation assistance for rehabilitation projects. It lacked sufficient documentation to support that rehabilitation projects were eligible and housing rehabilitation services were properly procured and provided assistance for an ineligible rehabilitation project because it lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and/or its requirements. As a result, it was unable to support its use of nearly \$334,000 in HOME funds for 12 rehabilitation projects and inappropriately provided nearly \$28,000 in HOME funds for a rehabilitation project that did not meet HUD's property standards requirement.

RECOMMENDATIONS

1A. Provide supporting documentation or reimburse its HOME program from nonfederal funds, as appropriate, for the \$333,618 in HOME funds used for the 12 rehabilitation projects for which the City lacked sufficient documentation to support compliance with HUD's regulations and/or its requirements.

1A. RESPONSE:

AGREE / DISAGREE. The City agrees that the documentation maintained by a HOME program employee was inadequate and poorly maintained. That employee's negligence is due in part to the instability of overall leadership within the department for the past 10 years. She has been evaluated, reprimanded and provided with the training she previously lacked, and she has been held to a higher standard of performance. She has been advised by the Mayor that failure – within a short time – to perform in accordance with all local, state and federal rules will result in termination. There have been 19 directors in 10 years, with one being indicted and convicted for theft in office. Additionally, the program was set-up in 1990 by a former mayor, who had served as the CDBG director for four years, and who admitted in federal court to accepting bribes in exchange for contracts. East Cleveland's electorate didn't become aware of the information until his conviction in 2004. He was replaced in 2004 with a Mayor who hired her nail technician to manage the CDBG department, and this unqualified person was responsible for managing federal programs for which he had no knowledge. The City totally acknowledges that its federally-funded programs have not been managed properly, but very aggressive steps have been taken since the Mayor assumed daily control of the department in May 2008. Even HUD's state director of Community Planning & Development, Jorgelle Lawson, has praised the City for managing its programs in the "right direction" since May 2008. **The City believes it is extreme on the part of the HUD / OIG to require it to reimburse its HOME program from non-federal funds \$338,618 simply because a negligent employee failed to place checks in square boxes, neglected to fill-in all blanks or left a piece of paper out of a file.** More importantly, HUD's own employees have monitored the City on an annual basis. Robert Milburn, a HUD employee who has

Comments 1, 2,
and 5

Comment 4

Ref to OIG Evaluation

Auditee Comments

Comment 4

monitored the City for at least 10 years, never made note of the discrepancies that we're now being held accountable for and informed the City in writing that they were problems. The City has attached Milburn's monitoring letters as exhibits. If the City can't rely on HUD's "experts" – employees who are supposed to be knowledgeable enough to assist us in complying with federal regulations - then who helps us when they fail or demonstrate a lack of knowledge of their own jobs? And this is meant with no disrespect to HUD's OIG employees, but the auditor made an observation that suggests she was not aware of a change in very complex federal lead paint rules. According to the Residential Lead-Based Paint Hazard Reduction Act of 1992 (Public Law 102-550), EPA and HUD, there is no Lead Based Paint notification requirement for homes built after 1978 as she commented in 3B. There are many fast-changing rules and policies and it is difficult for even the most well-intentioned employees to keep up with all of them.

Comment 6

Comment 3

The \$338,618 was spent to benefit East Cleveland residents who needed help and in accordance with HUD's broad national objective to reduce the impact of slum and blight. Housing rehabilitation guidelines, policies and procedures have been established by current departmental and city leadership that is committed to compliance. There is and has been a process for determining eligibility. Applications are taken on a first come first serve basis. Completed applications are processed to determine eligibility. The process for eligibility determination is based on verifying household's income, confirming and documenting principal residency, ensuring the family falls within established annual income guidelines and title searches to identify possible liens on property (Exhibit A). Also, there is a tracking document that is currently in-use to track the status of each applicant. (Exhibit B).

Comment 7

The City welcomed the HUD / OIG audit, cooperated fully with the auditor, made staff – including the Mayor – available to answer questions when needed, and began implementing management changes as soon as they were identified. We will use it as a guide as we go forward since it was the first time the City has had an objective review of its federal programs. We fully understand and appreciate the need for complying with federal regulations and the City's own laws and policies. Staff is being evaluated and trained. The Mayor closed the satellite office at 13601 Euclid last year and transferred all employees to City Hall. All employees now have direct and daily interaction with the Mayor, the Director of Finance and Director of Law and their conduct in executing the duties associated with the jobs they hold is under constant scrutiny. Employees, including the Mayor, Director of Law and Deputy Director of Law, have attended training and professional development workshops specifically related to better managing federal programs. The City is committed to managing a well-run program that holds all associated with it to very high standards. Any hint of incompetence is promptly identified and corrected. The City has an overall zero tolerance policy for corruption.

In addition, the City did establish and select households from an applicant waiting List.

Comment 7

There are two waiting lists. There is a waiting list of applicants who have not been determined eligible and a waiting list of applicants who have been determined eligible and are waiting approval for rehabilitation.

Ref to OIG Evaluation

Auditee Comments

Comment 8

1B. Reimburse its HOME program \$27,699 from nonfederal funds for the HOME funds used to assist the rehabilitation project cited in this finding that did not meet HUD's property standards requirements.

Comment 9

1B. **RESPONSE:**

DISAGREE. Disagree to reimburse its HOME program \$27,699 from nonfederal funds for the HOME funds used to assist the rehabilitation project cited in this finding that did not meet HUD's property standards requirements. We, however, agree that HOME funds drawn in 2002 for the rehabilitation of property located at [REDACTED] was not rehabilitated to the City's and HUD's property standards requirement. It is our understanding that there were a series of issues that were considered in making the decision to acquire the property. This is documented in the attached email from then Community Development Director Paul Beno (Exhibit C). However, to rectify the situation and to satisfy other issues such as -- provide a safe home for the homeowner and to retain the value already invested in the home, a management decision was made by then Community Development Director, Paul Beno. He stated in his memo dated December 7, 2005 (Exhibit D), "The house was subsequently purchased in an effort to accomplish several different goals. First, to keep the homeowner living in a safe home. The purchase allowed the owner to get into a Cleveland Housing Network (CHN) house. Second, to retain the value, which has already been invested in the house. Finally, to provide a cost effective CHDO project and to preserve the neighborhood."

Comment 4

Based on the results of our Onsite Monitoring Review from June 26-29, 2006 for Community Development Block Grant and HOME programs (Exhibit E), [REDACTED] was not indicated as a concern or finding. Also during this review, a meeting was held with our HUD Representative, Robert Milburn; William Ellington, Director of Community Development; Ron Brooks, City Finance Director; and Andy Nikiforovs, Community Housing Solutions' Executive Director for the City's Community Housing Development Organization (CHDO) and Subrecipient for HOME housing rehabilitation. The results indicated a topic of discussion in this meeting was CDBG and HOME programs.

Comment 10

1C. Implement adequate procedures and controls to ensure that HOME funds are used for eligible activities rehabilitation projects and the procurement of housing rehabilitation services meets HUD's regulations and/or its requirements. The procedures and controls should include but not be limited to implementing adequate written policies and procedures requiring supervisor's to perform quality control reviews of the files to ensure that the rehabilitation projects are eligible for assistance and for maintaining sufficient supporting documentation in the City's files.

1C. **RESPONSE:**

AGREE. As soon as problems were identified by the HUD/ OIG auditor, the City began the process of revising and implementing policies, procedures and quality control reviews of the files for all HOME and CDBG programs. We are currently meeting several times a week to discuss the status of programs and ways to better improve the way we serve the community while meeting these guidelines and requirements. We are currently:

Comment 10

Reviewing and revising the current HOME Rehabilitation Guidelines

- Intake and waiting list procedures
- Eligibility Requirements with written procedures – 24 CFR 92.203 and 24 CFR 92.508(a)(3)(v)(xi)
- Documents required in each project –
 - application and family information, 24 CFR 92.508(a)
 - legal documents, 24 CFR 92.508(a)
 - property information 24 CFR 92.508(a)(7)(iii)
- The Housing Rehabilitation procedures which includes
 - Pre-rehabilitation appraisals for the after-rehabilitation value process
 - Compliance with Property Standards – 24 CFR 92.251 and 24CFR 200.925/926
 - The Bidding Process – 24 CFR 92.505(a) and 24 CFR 85.36 (c) and (d) - Procurement by sealed bid
 - Documentation of initial inspection, work write up and progress inspections – 24 CFR 92.505(a) and 24 CFR 85.36 (f)
 - Does the work write-up include all work noted on the initial inspection report and reflect written rehabilitation standards – 24 CFR 92.251(a)(1)
 - Does the final inspection confirm that all necessary work was completed and met property standards 24 CFR 92.251(a)(1)
 - Standard Procedures for Change Orders – 24 CFR 92.508(a)(3)(iv)
 - Procedures for Substandard Work will be established with Law Dept.
 - Procedures for debarred contractors Title 2 CFR, Parts 180 and 2424. For the most recent list of debarred contractors go to <http://epls.gov>.
 - Monitoring process and procedures – 24 CFR 84.51
 - Activity Completion – 24 CFR 92.508(a)(3)(ii)

Reviewing and revising the current HOME Standards manual

- Compliance with Property Standards – 24 CFR 92.251 and 24CFR 200.925/926

Requiring each employee to document their specific job duty and processes for each program in which they oversee:

- Coordinator and Intake for HOME
- Coordinator and Intake Emergency Repairs Program
- Rehabilitation Specialist/ Monitor for HOME Program
- Rehabilitation Specialist /Monitor for Emergency Repair Programs
- Coordinator for Paint Program
- Coordinator for Demolition program
- Fiscal Coordinator
- CDBG Subrecipient Coordinator/ Monitor
- Coordinator for Street Projects
- Code Enforcement Coordinator
- Manager of IDIS

The processes for each program are being documented in a departmental shared folder. The status of HOME housing rehabilitation projects will be documented in a shared folder to better serve homeowners requesting the status of their rehabilitation or approval for the program.

Comment 10

Each employee is required to read the manual for the program that they work in and reference the regulations for the processes that they must follow.

Check list have been implemented for :

- Documents required to be submitted with request for Purchase Orders
- Payments for HOME Housing Rehabilitation, Emergency Repair, Demolition, Street Projects
- Request for Reimbursement for CDBG subrecipients
- Request for Qualifications and Professional Services
- HOME & Emergency Repair Eligibility Certification

We clearly understand that it is not enough to identify and document policy and procedure; but that we must consistently comply with the City and Federal guidelines. To ensure compliance with the various requirements and regulations, we are implementing periodic review of project files. The *HOME Program Guide for Review of Homeowner Rehabilitation Projects* (Exhibit F), a document designed for use in reviewing individual project files of owner-occupied housing rehabilitation program. It is divided into nine sections: Participant Eligibility; Property Eligibility; Eligible/Reasonable Costs; Property Standards; Written Agreement; Contract Selection; Construction Management; Loan Processing and Servicing; and Recordkeeping. It asks such questions such as "Was the applicable definition of income used for this homeownership rehabilitation program. You would then check yes or no and describe the basis for your conclusion. It also allows one to monitor the project file to determine if required items are in the file. Karen Hood, Deputy Director for Community Development will begin the process of randomly selecting housing rehabilitation project files to check if we are maintaining all required files and ensuring the completeness and accuracy of such files.

Once the Audit is complete, we look forward to the HOME Wellness checkup that HUD officials will provide to us (Exhibit G). The checkup will explore income-eligibility, lead based paint, record keeping and rental requirements. During a HOME Wellness checkup, consulting staff will work with us to:

- Assess our program's compliance with HOME and other federal regulations
- Review a sample of project files for completeness and compliance
- Explore ways to increase HOME-funded commitments and expenditures
- Identify risk-mitigation strategies that can allow us to operate more efficiently and effectively

They will also provide technical assistance to:

- Help develop customized procedures and operating guides tailored to our HOME program
- Help retool an existing rehab program
- Program marketing

We believe that we are on the right track in getting our HOME program up and running as HUD desires it to be. We are committed to following through with revising, implementing and

Ref to OIG Evaluation

Auditee Comments

Comment 10

retooling existing HOME and CDBG programs. We are committed to serving the citizens and making our community a viable one.

Finding 2: The City Lacked Adequate Controls over Its HOME-Funded Organization Projects

The City did not comply with federal requirements and/or its set-aside agreement (agreement) with Community Housing Solutions (see appendix C of this audit report) in providing assistance for organization projects. It lacked documentation to support the cost of pre-purchased construction materials and whether all of the materials were used for the organization projects and provided assistance for an inappropriate project because it lacked adequate procedures and controls to ensure that it appropriately followed federal requirements and/or its agreement with Community Housing Solutions. As a result, it was unable to support its use of nearly \$32,000 in HOME funds for three organizational projects and provide nearly \$97,000 and committed more than \$24,000 in HOME funds for an improper organization project.

Comment 11

RECOMMENDATIONS

2A. Provide supporting documentation or reimburse its HOME program from nonfederal funds, as appropriate, for the \$31,997 in HOME funds used for the three projects for which the City lacked sufficient documentation to support the cost of the pre-purchased construction materials and whether all of the materials were used for organization projects.

2A. RESPONSE:

AGREE: The City did not comply with its agreement between the City and Lutheran Housing Corporation aka Community Housing Solutions for acquiring pre-purchased materials. Materials have been inventoried and are currently in storage. The plan for these materials are to be used for rehabilitation projects in the Neighborhood Revitalization Strategy Area (NRSA) once issues are resolved with Community Housing Solutions.

2B. Reimburse its HOME program \$96,763 from nonfederal funds for the HOME funds used to acquire and provide housing rehabilitation assistance for the organization project cited in this finding that was contrary to its agreement with Community Housing Solutions.

2B. RESPONSE:

DISAGREE. In order to get the history of the acquisition and rehabilitation of the property located at [REDACTED] and a better understanding of the reasons for acquiring this property and then moving forward with the substantial rehabilitation, we contacted Paul Beno, who was Community Development Director from October 2002 thru June 2006 for a statement of the reasons for the acquisition then rehabilitation of this property. His statement is in an email submitted to Karen Hood attached. (Exhibit C). Again as identified in response 1B, based on the results of our Onsite Monitoring Review from June 26-29, 2006 for Community Development Block Grant and HOME programs (Exhibit E), 12717 Phillips was not indicated as a concern or finding.

Comment 12

Comment 4

2C. Close out and de-commit the \$24,223 in HOME funds inappropriately committed in HUD's System for the organization project cited in this finding that was contrary to its agreement with Community Housing Solutions.

Ref to OIG Evaluation

Auditee Comments

Comment 12

2C. RESPONSE:

DISAGREE. The City is committed to completing the project with an approved defined plan and defined timelines.

2D Implement adequate procedures and controls for maintaining supporting documentation for pre-purchased construction materials and only allowing Community Housing Solutions to acquire, rehabilitate and sell vacant single-family housing to ensure that HOME funds are used for eligible organization projects. The procedures and controls should include but not limited to implementing adequate written policies and procedures for obtaining sufficient documentation from community housing development organizations to support the cost of the pre-purchased construction materials and whether all of the pre-purchased construction materials are used for organization projects.

Comment 13

2D. RESPONSE:

AGREE. If there is a need to pre-purchase construction materials in the future, adequate procedures and controls will be implemented and maintained. We disagree to implement procedures for maintaining pre-purchase materials because there is no future plan to pre-purchase construction materials under the CHDO program. Materials will be acquired based on established procurement standards by the developer with review and approval by the City; and will be indicated in the CHDO agreement or we will comply with standards identified at 24 CFR 85.36. In addition, all future contracts will be specific to identify:

- CHDO Provisions (24 CFR 92.300 and 92.301)
- Use of HOME funds
- Objective/ description of the project
- Roles and Responsibilities
- Funding years and amounts
- Guidelines for property standards (24 CFR92.251)
- Location of properties
- Procedure for sale of properties
- Program income (24 CFR 570.500)
- Maintenance of records
- Periodic reports of accomplishments
- Duration of Agreement with defined deadlines for work to be completed
- Uniform Administrative Requirements (24 CFR 92.505)
- Requests for Disbursements of funds
- The Monitoring process
- Enforcement of Agreement (24 CFR 92.252 and 92.254)

FINDING 3: The City Needs to Improve Controls over Its HOME-Funded Financing Activities

The City lacked documentation to support that it followed federal requirements and/or its codified ordinances (see appendix C of this audit report) in providing down payments and closing costs for financing activities. The weaknesses occurred because the City lacked adequate procedures and controls to ensure that it used HOME funds for eligible financing activities and maintained adequate documentation. As a result, HUD and the City lacked assurance that \$140,000 in HOME funds was used efficiently and effectively and in accordance with federal requirements and/or the City's codified ordinances.

RECOMMENDATIONS

3 A. Provide supporting documentation or reimburse its HOME program from nonfederal funds, as appropriate, for the \$140,000 in HOME funds used for the five activities for which the City lacked sufficient documentation to support compliance with federal requirements and/or its codified ordinances.

3 A. RESPONSE:

DISAGREE The supporting documents you reference as missing were submitted in the February 19, 2009 delivery via FEDX to Kathy Crago, Senior OIG Auditor. Due to an oversight, a parcel map, which clearly shows that an environmental review was conducted, was inadvertently left out. They are enclosed with this document and labeled. The required documents are identified in Exhibits H, I & J.

- A. The Contractor's building permits (Exhibit H)
- B. The contractor's certificate of tax registration (Exhibit I)
- C. The environmental review documentation (Exhibit J)

Comments 14, 15, 16, 17, and 18

**Comments 14, 15, and 16
Comment 17**

**Comments 16
and 18**

Missing Documents				
Contractor building permits – Exhibit H	enclosed	enclosed	enclosed	enclosed
Contractor's certificate of tax Registration - Exhibit I	enclosed	enclosed	enclosed	enclosed

Missing Documents			
Environmental Review Documentation – Exhibit J	See Environmental Site Assessment Final Report; letter, dated November 3, 2003; letter from [redacted] of Cleveland Housing Network and Parcel Map	See Environmental Site Assessment Final Report; letter, dated November 3, 2003; letter from [redacted] of Cleveland Housing Network and Parcel Map	See Environmental Site Assessment Final Report; letter, dated November 3, 2003; letter from [redacted] of Cleveland Housing Network and Parcel Map

Ref to OIG Evaluation

Auditee Comments

Comment 19

3 B. Implement adequate procedures and controls for maintaining sufficient supporting documentation to ensure that HOME funds are used for eligible activities. The procedures and controls should include but not be limited to implementing adequate written policies and procedures requiring supervisors to perform quality control reviews for the files to ensure that the financing activities are eligible for assistance and for maintaining sufficient supporting documentation in the files.

3B - RESPONSE

Since the implementation of the GAP Financing program policy, procedure and guidelines were established. A checklist was created to ensure compliance with the program and was followed consistently for each homebuyer. On February 19, 2009 GAP Financing Information documents (3 pages) were forwarded via FEDX to Kathy Crago, Senior OIG Auditor as well as a GAP Financing Program Structure sheet (1 page), (Exhibit K)

As identified in Recommendation 1C, the City began implementing and revising policies, procedures and quality control reviews of the files for all HOME and CDBG programs as soon as they were revealed by the HUD / OIG during the audit process. Staff will continue to review its actions and ensure compliance with all local, state and federal laws and regulations.

In addition, as it relates the City could not provide a lead-based paint disclosure for the seven activities.

**RESPONSE TO THE OIG "ADDITION"
DISAGREE**

There is no HUD regulation requiring a "lead-based paint disclosure" for the seven activities identified by the HUD / OIG auditor. Under the Residential Lead-Based Paint Hazard Reduction Act of 1992 (Public Law 102-550), EPA and HUD promulgated joint regulations for disclosure of any known LBP hazards and Target Housing offered for sale or lease. "EPA and HUD Target Housing is defined by regulation as non-exempt housing constructed prior to 1978 with confirmed LBP." Each of the seven activities identified by the HUD / OIG were all new construction homes built between 2004 and 2005.

Comment 6

FINDING 4: The City Lacked Adequate Controls over Its Disbursement of Block Grant Funds

The City did not always comply with federal requirements (see appendix C of this audit report) in its disbursement of Block Grant funds that it drew down from its line of credit. It failed to disburse Block Grant funds drawn down from its line of credit within three days, used Block Grant funds for inappropriate expenses, and lacked documentation to support that is used Block Grant funds for eligible costs because it lacked procedures and controls to ensure that federal requirements were appropriately followed. As a result, HUD lost more than \$4,000 in interest on the more than \$180,000 Block Grant funds that the City failed to disburse within three days, and the City was unable to support its use of more than \$5,000 in Block Grant funds for eligible costs.

RECOMMENDATION

4A. Disburse the \$31,670 in Block Grant funds cited in this finding for appropriate eligible costs or reimburse HUD \$31,670 for the Block Grant funds it has not disbursed. If the City disburses the funds, it will need to provide sufficient supporting documentation for \$2,604 of the \$31,670 in Block Grant Funds

4A. RESPONSE

City has issued a disbursement in the amount of \$29,066 (Exhibit L). This amount represents \$31,670 less the (\$2,604) in insufficient supporting documentation according to HUD. Please see attached copy of check issued to Helen S. Brown Center (AKA HSB) in the amount of \$29,066. Additionally, please provide the City of East Cleveland a copy of the calculation used to determine lost interest in the amount of \$2,604.

4B. Reimburse HUD \$4,487 from nonfederal funds for the interest HUD lost on the Block Grant funds that the City failed to disburse within three days of being drawn down from its line of credit.

4B. RESPONSE

The City of East Cleveland does not dispute the fact that some not all draw downs were not made within the three days as required. That aside, the city acknowledges that HUD has lost some interest earnings due to the above, however, before we issues reimbursement to HUD for stated lost interest in the amount of \$4,487 the City of East Cleveland would like a copy of the calculation used to determine the stated amount of lost interest. In our main bank account for the City of East Cleveland last year (2008) we earned less than for \$4,000 in interest in a account than had more than \$17 million dollars past thru it.

4C. Provide sufficient supporting documentation or reimburse its Block Grant program from nonfederal funds, as appropriate, for the \$5,221 in Block Grant funds used for unsupported costs cited in this finding

Comment 20

Comment 21

Comment 22
Comment 23

Comment 23

Comment 22

Comment 23

Comment 23

4C. RESPONSE:

Supporting documentation are as follows:

Category	Period	Amount	ATTACHMENTS
*Salaries	May 2006-	\$3,946.00	Exhibit M
Public Safety Services	February 2008	\$ 206.00	Exhibit N
Youth Services	February 2007	\$ 814.00	Unsupported
Architectural Services	October 2008	\$ 118.00	Unsupported
Engineering Services	October 2007	\$ 74.00	Exhibit O
Transportation	June 2007	\$ 63.00	Unsupported

Disagree – Salaries. It is our understanding from Kathleen Crago that the reason for the finding is each written change should have been signed by the employee and supervisor indicating approval of the change on the electronic timesheet (E-Timesheet). This was not the City's Policy during this audit review period. The Policy was that the director reviewed each employee's time for correctness and then sign once for each employee along with the employee signing in agreement of this time. For example, if there were five employees in one pay period, the director would sign six times, once approving each employees time and then for the entire payroll. The payroll document which is titled *Payroll Authorization for Payroll Batch Analysis* is signed by the director certifying that all information on the attached Payroll Batch Analysis is true and correct for the current pay period. This is then submitted to the Finance Department for review and approval.

Signing each written change on the E-Timesheet was not the City policy and all employees were not required to report their time electronically during 2006 and 2007. However, Mayor Eric Brewer implemented an Electronic Time Card Policy for all non-exempt City Employees (Exhibit M).

Disagree – Pubic Safety Services. Supporting documents included in (Exhibit N)

Disagree – Engineering Services. Supporting documents included in (Exhibit O)

4D. Implement adequate procedures and controls for disbursing draw downs of Block Grant funds within three days and maintaining sufficient supporting documentation to ensure that it appropriately disburses Block Grant funds for eligible program costs. The procedures and controls should include but not be limited to implementing adequate written policies and procedures to ensure that Block Grant funds are disbursed within three days of being drawn down and for obtaining sufficient documentation for its Block Grant program costs.

4D. RESPONSE

The City of East Cleveland is currently completing a written policy that addresses the draw down issue and procedures and controls for disbursing a draw down. This document will be completed by April 3rd and signed of by the Mayor, the head of the Department of Community Development and the Director of Finance. HUD will receive a copy of this document within three days of final administrative sign-offs.

OIG's Evaluation of Auditee Comments

Comment 1 HUD's regulations at 24 CFR 92.504(a) state that a participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all HOME program requirements and written agreements.

HUD's regulations at 24 CFR 92.551(c) state that corrective or remedial actions for a participating jurisdiction's performance deficiency or a failure to meet a provision of 24 CFR Part 92 will be designed to prevent its continuation; mitigate, to the extent possible, its adverse effects or consequences; and prevent its recurrence. Section 92.551(c)(1) states that HUD may instruct the participating jurisdiction to submit and comply with proposals for action to correct, mitigate, and prevent a performance deficiency to include reimbursing its HOME investment trust fund local account in any amount not used in accordance with the requirements of 24 CFR Part 92.

Comment 2 We only recommended that the Director of HUD's Columbus Office of Community Planning and Development require the City to reimburse its HOME program from nonfederal funds when it did not use HOME funds in accordance with HUD's and/or its requirements. When the City lacked documentation to support its use of HOME funds, we recommended that the Director of HUD's Columbus Office of Community Planning and Development require the City to provide supporting documentation or reimburse its HOME program from nonfederal funds, as appropriate.

Comment 3 Aiding in the prevention or elimination of slums and blight is one of the national objectives for the Block Grant program. It is not a factor in determining the eligibility of activities and/or costs under the HOME program.

Comment 4 HUD's Columbus Office of Community Planning and Development's monitoring reviews are generally much narrower in scope than our audits due to the limited time and resources it has to oversee hundreds of grantees receiving funding through the community planning and development programs. Further, the City entered into grant agreements with HUD stating that its HOME and Block Grant funds must comply with HUD's regulations at 24 CFR Parts 92 and 570, respectively. Therefore, regardless of whether HUD's Columbus Office of Community Planning and Development develops findings and/or concerns through its monitoring reviews, the City is responsible for ensuring that HOME and Block Grant funds are used in accordance with applicable requirements.

Comment 5 Contrary to HUD's regulations and/or the City's requirements, the City lacked documentation for 12 of the 14 rehabilitation projects to support that it used \$333,618 in HOME funds for appropriate rehabilitation projects.

- Comment 6** We removed from the report that the City could not provide a lead-based paint disclosure form for the seven activities.
- Comment 7** The City did not provide documentation to support that it selects households on a first-come first-serve basis or from an applicant waiting list.
- Comment 8** HUD's regulations at 24 CFR 92.251(a)(1) state that housing rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, and ordinances at the time of project completion. Rehabilitation project number 990 did not meet HUD's property standards requirements after the housing rehabilitation assistance was completed in March 2004.
- Comment 9** We revised the report to state that the Department's former director stated that HOME funds were used for the rehabilitation project since the City decided to purchase and provide additional housing rehabilitation assistance for the property as an organization project to save the value of the investment in the property that had already been made.
- Comment 10** The City's updated policies and procedures should improve its procedures and controls over its rehabilitation projects if fully implemented.
- Comment 11** We revised the report to state the City inappropriately disbursed \$31,997 of the HOME funds (\$27,824 for prepurchased construction materials and \$4,173 for administrative fees) to Community Housing Solutions for three organization projects. The City's mayor stated that the prepurchased construction materials had not been used and were in storage as of April 1, 2009.

We also revised recommendation 2A to reflect these revisions.

- Comment 12** The City inappropriately used \$96,763 in HOME funds when it drew down and disbursed the funds to Community Housing Solutions to acquire and provide housing rehabilitation assistance for organization project number 838. As stated in finding 1 of this audit report, the City inappropriately used \$27,699 in HOME funds from May 2003 through March 2004 for rehabilitation project number 990 when it did not ensure that the rehabilitation project met HUD's property standards requirements after the housing rehabilitation assistance was completed in March 2004. In August 2005, the City approved Community Housing Solutions to acquire the property from the homeowner and provide additional housing rehabilitation assistance under organization project number 838. However, the City's agreement with Community Housing Solutions only allowed Community Housing Solutions to acquire, rehabilitate, and sell vacant single-family housing. As of November 2008, an additional \$96,763 in HOME funds was used to acquire and provide additional housing rehabilitation assistance for the property as an organization project. Further, the City had committed an additional \$24,223 in HOME funds in HUD's System for the organization project as of February 2009.

Comment 13 The City did not provide any policies and procedures regarding the prevention of future disbursements of HOME funds for prepurchased construction materials.

Comment 14 The scope of work on the contractor's building permits for financing activity number 1178 was only for a garage, while the HOME funds were used to assist the home buyer with a downpayment and closing costs for a newly constructed home.

Comment 15 Section 1301.10.102.0 of the City's codified ordinances states that a contractor's building permit shall become invalid if the work authorized by the permit is not started within six months after the issuance of the permit. The contractor's building permit for financing activity number 1237 was dated October 13, 2005. The home buyer's application and the new construction sales agreement between the seller and the home buyer were dated December 22, 2006, and February 23, 2007, respectively. The City's file for financing activity number 1237 did not contain documentation to support when the construction started.

Comment 16 We revised the report to state that the City lacked documentation for four of the seven financing activities to support that it followed federal requirements and/or its codified ordinances when it provided \$110,000 in HOME funds to assist home buyers with downpayments and closing costs. The files for four financing activities were missing the following documentation:

- ❖ Three were missing the contractor's certificate of tax registration,
- ❖ Two were missing the contractor's building permit, and
- ❖ One was missing environmental review documentation.

We also revised recommendation 3A to reflect these revisions.

Comment 17 Section 191.0706.01 of the City's codified ordinances states that no person, firm, partnership, or corporation shall perform any construction work in the City unless it possess an uncanceled certificate of tax registration issued by the City's Tax Department. The contractor's certificate for tax registration expired on October 24, 2006. The City's files for financing activity numbers 1178, 1232, 1237, and 1254 did not contain documentation to support that the construction started before October 24, 2006.

Comment 18 Financing activity number 1237 was not one of the financing activities included in the audit report as missing environmental review documentation. The City's files for financing activity 1232 were missing environmental review documentation.

Comment 19 The City's updated policies and procedures should improve its procedures and controls over its financing activities if fully implemented.

Comment 20 The City only provided a copy of the check. It did not provide a copy of the cancelled check.

Comment 21 HUD lost \$3,974 in interest on the \$31,670 in Block Grant funds that the City failed to disburse. On May 8, 2009, we provided the City schedules showing the calculations for the more than \$4,000 in interest HUD lost on the more than \$183,000 in Block Grant funds that the City failed to disburse within five days.

Comment 22 The \$3,946 in salaries was not sufficiently supported due to the City's punch detail reports for employees not containing when the employees began and/or ended each workday of a pay period. The employees wrote in their total hours for the pay period on and signed their punch detail reports. However, the employees did not include the missing beginning and/or ending times on their punch detail reports. In addition, the City's managers did not sign the employees' amended punch detail reports.

Comment 23 We revised the report to state that the City lacked sufficient documentation to support that it used an additional \$4,941 in Block Grant funds from May 2006 through November 2007 for appropriate program expenses. The unsupported disbursements were for salaries, youth and heating and air conditioning services, and transportation.

We removed from the table unsupported disbursements for public safety services and engineering services totaling \$206 and \$74, respectively.

We also revised recommendation 4C to reflect these revisions.

Appendix C

FEDERAL AND CITY REQUIREMENTS

Finding 1

HUD's regulations at 24 CFR 85.36(b)(9) require grantees and subgrantees to maintain records sufficient to detail the significant history of a procurement, such as the rationale for the method of procurement and the basis for the contract price. Section 85.36(c)(1) states that all procurement transactions will be conducted in a manner providing full and open competition. Section 85.36(d)(1) states that when procurement by small purchases is used, price or rate quotations will be obtained from an adequate number of qualified sources.

HUD's regulations at 24 CFR 92.203(a)(2) state that a participating jurisdiction must determine households' annual income by examining source documentation evidencing households' annual income. Section 92.203(d)(1) states that a participating jurisdiction must calculate a household's annual income by projecting the prevailing rate of the household's income at the time the participating jurisdiction determines the household to be income eligible. Annual income shall include income from all household members. Section 92.203(d)(2) states that a participating jurisdiction must reexamine a household's annual income at the time HOME assistance is provided if more than six months has elapsed since the participating jurisdiction determined that the household qualified as income eligible.

HUD's regulations at 24 CFR 92.251(a)(1) state that housing rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, and ordinances at the time of project completion.

HUD's regulations at 24 CFR 92.254(a)(2)(iii) state that if a participating jurisdiction intends to use HOME funds for projects, the participating jurisdiction may use the single-family mortgage limits under section 203(b) of the National Housing Act, or it may determine 95 percent of the median area purchase price for single-family housing in the jurisdiction. Section 92.254(b) states that for rehabilitation not involving acquisition, a project qualifies as affordable housing only if the estimated value of the property after rehabilitation does not exceed 95 percent of the median purchase price for the area as described in 24 CFR 92.254(a)(2)(iii) and the housing is the principal residence of an owner whose household qualifies as a low-income household at the time HOME funds are committed to the project.

HUD's regulations at 24 CFR 92.504(a) state that a participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all HOME program requirements and written agreements, and taking appropriate action when performance problems arise. The use of subrecipients or contractors does not relieve the participating jurisdiction of this responsibility. Section 92.504(b) states that a participating jurisdiction must enter into a written agreement with a subrecipient before disbursing any HOME funds to that subrecipient. Section 92.504(c)(2)(x) states that if the subrecipient provides HOME funds to homeowners, the subrecipient must enter a written

agreement with the homeowners which meets the requirements of 24 CFR 92.504. Section 92.504(c)(5) states that when a participating jurisdiction provides assistance to a homeowner, the participating jurisdiction must enter into a written agreement with the homeowner that conforms to the requirements in 24 CFR 92.254(b) and specify the amount and form of HOME assistance, rehabilitation work to be undertaken, date for completion, and property standards to be met.

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

- Each household is income eligible in accordance with 24 CFR 92.203.
- Each project meets the property standards at 24 CFR 92.251.
- Each project's estimated value after rehabilitation does not exceed 95 percent of the median purchase price for the area in accordance with 24 CFR 92.254(a)(2).
- Each homeownership project meets the affordability requirements of 24 CFR 92.254.

Section 1 of City ordinance number 96-00, passed on June 20, 2000, states that the City's council approved and adopted the City's housing rehabilitation program guidelines (guidelines) and authorized and directed the City's mayor and director of the Department to take such steps and execute such instruments as shall be necessary to implement the City's housing rehabilitation program in accordance with the guidelines.

Section 2, paragraph A, of the City's guidelines states that for projects, a maximum of \$30,000 in HOME funds per housing unit is available to provide households zero percent deferred, unforgivable 10-year loans to correct code deficiencies. The after-rehabilitation value of the property is not to exceed 95 percent of the median purchase price. If the household sells or transfers the property or any legal and equitable interest in the property within the 10 years, the household must reimburse the City for the full loan amount. Section 2, paragraph B, states that a household's income is reported on the household's income tax filing for the most recent available year. In addition, the household shall provide copies of its most recent Internal Revenue Service W-2 and 1099 forms if applicable. Households must have lived in their homes and owned the properties for a minimum of three years before the date of their applications. In addition, households must be current with their mortgage payments and property taxes to be considered eligible for housing rehabilitation assistance. Further, households must provide proof of hazard insurance on their homes. Section 2, paragraph C, states that households will be ranked according to specific criteria. First priority for waiting list placement will be given to elderly households and households with small children. In the event of a similar ranking, the date and time the application was submitted will be used to determine the order in which assistance is provided.

Section 5 of the contracts between the contractors and the homeowners states that all changes in the contract (material, labor, etc.) shall be approved by the homeowner, City, and contractor on a change order document. Changes can only be made through a change order. Section 19 states that a request for payment must be initiated by the contractor upon completion of all work or part of the work. The contractor or homeowner must arrange for a City inspection of the work. At or

before the time of the City's inspection, the contractor and homeowner must sign an owner satisfaction statement covering the work which has been completed. Payment for each work item listed on the owner satisfaction statement, at the agreed-upon price for each item as contained in exhibit A of the contract and any duly approved change orders, will be mailed directly to the contractor, normally within 30 days after submission of the owner satisfaction statement signed by all parties; satisfactory inspection of the work by the City; and receipt of all required permits, lien waivers, municipal inspection reports, and any other documents reasonably requested by the City. Section 20 states that the contractor's invoice requesting final payment must include all written manufacturers' and suppliers' guarantees and warranties covering materials and equipment furnished under the contract.

Finding 2

HUD's regulations at 24 CFR 85.20(b)(2) require grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities.

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

HUD's regulations at 24 CFR 92.502(c)(2) state that HOME funds drawn down from a participating jurisdiction's HOME trust fund treasury account must be expended for eligible costs within 15 days.

HUD's regulations at 24 CFR 92.504(a) state that a participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all HOME program requirements and written agreements, and taking appropriate action when performance problems arise. The use of subrecipients or contractors does not relieve the participating jurisdiction of this responsibility. Section 92.504(b) states that a participating jurisdiction must enter into a written agreement with an entity before disbursing any HOME funds to that entity.

HUD's regulations at 24 CFR 92.505(a) state that the requirements of Office of Management and Budget Circular A-87 and sections 85.20 and 85.22 of 24 CFR Part 85 are applicable to a participating jurisdiction that is a government entity.

HUD's regulations at 24 CFR 92.508(a) state that a participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of 24 CFR Part 92. The participating jurisdiction must maintain records demonstrating compliance with the applicable uniform administrative requirements in 24 CFR 92.505.

Attachment A, section C.1, of Office of Management and Budget Circular A-87, revised May 10, 2004, requires all costs to be necessary, reasonable, and adequately documented.

The City's agreement with Community Housing Solutions, dated June 16, 2005, states that Community Housing Solutions proposes to continue implementation of and the City agrees to provide Community Housing Solutions financial assistance to support a housing program in the City involving the acquisition, rehabilitation, and sale of vacant single-family housing to be occupied by low- to moderate-income households.

Article I, section 1.01, of the City's agreement with Community Housing Solutions states that Community Housing Solutions shall use the HOME funds in accordance with HUD's HOME guidelines and requirements.

Article I, section 1.08, of the City's agreement with Community Housing Solutions states that Community Housing Solutions shall create a committee, which shall be responsible for providing guidance and recommendations to Community Housing Solutions' staff regarding the acquisition of properties under the agreement, inspect properties acquired under the agreement at any time before the transfer of the property to a qualified home buyer and advise Community Housing Solutions' staff regarding the scope and quality of the rehabilitation work, provide recommendations to and assist Community Housing Solutions' staff regarding the marketing of properties acquired under the agreement, and assist in other areas regarding the implementation of the agreement as Community Housing Solutions' staff and the committee deem appropriate.

Finding 3

HUD's regulations at 24 CFR 58.35(b) state that HUD has determined that activities to assist homebuyers in the purchase of existing dwelling units or dwelling units under construction, including closing costs and downpayment assistance, are categorically excluded activities that would not alter any conditions that would require a review or compliance determination regarding environmental impact. However, the recipient remains responsible for carrying out any applicable requirements in 24 CFR 58.6.

HUD's regulations at 24 CFR 58.6 state that the responsible entity remains responsible for addressing the requirements of its environmental review record and meeting the requirements, as applicable, regardless of whether the activity is exempt or categorically excluded.

HUD's regulations at 24 CFR 85.20(b)(2) require grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities.

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

HUD's regulations at 24 CFR 92.251(a)(2) state that housing acquired with HOME funds must meet all applicable state and local housing quality standards and code requirements. HUD's regulations at 24 CFR 92.352(b)(1) state that no funds may be committed to an activity or project before the completion of the environmental review and related certification, except as authorized by 24 CFR Part 58.

HUD's regulations at 24 CFR 92.504(a) state that a participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all HOME program requirements and written agreements, and taking appropriate action when performance problems arise.

HUD's regulations at 24 CFR 92.505(a) state that the requirements of Office of Management and Budget Circular A-87 and sections 85.20 and 85.22 of 24 CFR Part 85 are applicable to a participating jurisdiction that is a government entity.

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

- Compliance with the environmental review requirements of 24 CFR Part 58 and 24 CFR 92.352.
- Compliance with the written agreements required by 24 CFR 92.504.
- Compliance with the applicable uniform administrative requirements required by 24 CFR 92.505.

Attachment A, section C.1, of Office of Management and Budget Circular A-87, revised May 10, 2004, requires that all costs be necessary, reasonable, and adequately documented.

Section 191.0706.01 of the City's codified ordinances states that no person, firm, partnership, or corporation shall perform any construction work in the City unless it possess an uncanceled certificate of tax registration issued by the City's Tax Department.

Section 1301.10.102.0 of the City's codified ordinances states that no person, firm, or corporation shall erect, construct, enlarge, alter, repair, relocate, or demolish a building or other structure or cause the same to be done without first applying with the City's chief enforcement official and obtaining a building permit.

Section 1337.06 of the City's codified ordinances states that no person, firm, or corporation acting in the capacity of an escrow agent in any real estate transaction involving the sale of real estate situated in the City shall transfer title or disburse any funds unless and until a close-out certificate or conditional close-out certificate has been deposited in escrow.

Finding 4

HUD's regulations at 24 CFR 85.20(b)(1) state that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant. Section 85.20(b)(2) requires grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligation, unobligated balances, assets, liabilities, outlays or expenditures, and income. Section 85.20(b)(6) states that accounting records must be supported

by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents. Section 85.20(b)(7) states that when advances are made to a grantee through a line of credit or electronic transfer of funds, the grantee must make drawdowns as close as possible to the time of making disbursements.

HUD's regulations at 24 CFR 85.21(c) state that grantees shall be paid in advance, provided the grantees maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer and disbursement of the funds.

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

HUD's regulations at 24 CFR 85.41(c)(3) state that when considered necessary and feasible by the federal agency, grantees may be required to report the amount of cash advances in excess of three days' needs in the hands of their subgrantees or contractors and to provide short narrative explanations of actions taken by the grantee to reduce the excess balance.

HUD's regulations at 24 CFR 570.500(a)(2)(iii) state that interest earned on the investment of amounts reimbursed to a recipient's Block Grant program account before the use of the reimbursed funds for eligible purposes must be remitted to HUD for transmittal to the U.S. Treasury.

HUD's regulations at 24 CFR 570.502(a) state that recipients that are governmental entities shall comply with Office of Management and Budget Circular A-87. Section 570.502(a)(4) states that recipients that are governmental entities shall comply with 24 CFR 85.20, except for section 85.20(a). Section 570.502(a)(15) states that recipients that are governmental entities shall comply with 24 CFR 85.41, except for sections 85.41(a), (b), and (e). Section 570.502(a)(16) states that recipients that are governmental entities shall comply with 24 CFR 85.42, except that the retention period shall be four years.

HUD's regulations at 24 CFR 570.506 state that recipients shall establish and maintain sufficient records to enable HUD to determine whether the recipients have met the requirements of 24 CFR Part 570. Section 570.506(a) states that recipients need to maintain records providing a full description of each activity assisted with Block Grant funds; the amount of Block Grant funds budgeted, obligated, and expended for the activities; and the provisions under which the activities are eligible. Section 570.506(h) states that recipients need to maintain financial records in accordance with the applicable requirements in section 570.502. Recipients shall maintain evidence to support how Block Grant funds are expended. The documentation must include invoices, schedules containing comparisons of budgeted amounts and actual expenditures, construction progress schedules signed by appropriate parties, and/or other documentation appropriate to the nature of the activity, as applicable.

Attachment A, section C.1, of Office of Management and Budget Circular A-87, revised May 10, 2004, requires all costs to be necessary, reasonable, and adequately documented.

Attachment B, section 11.h(4), of Office of Management and Budget Circular A-87 states that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Section 11.h(5) states that personnel activity reports or equivalent documentation must meet the following standards: (1) reflect an after-the-fact distribution of the actual activity of each employee, (2) account for the total activity for which each employee is compensated, (3) be prepared at least monthly and coincide with one or more pay periods, and (4) be signed by the employee.