



Issue Date	September 26, 2008
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Audit Report Number	2008-CH-1015
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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 Dayton, Ohio, Lacked Adequate Controls Regarding Staff Salaries Paid from Its Community Development Block Grant Program

HIGHLIGHTS

What We Audited and Why

We audited the City of Dayton's (City) Community Development Block Grant program (program). The audit was part of the activities in our fiscal year 2008 annual audit plan. We selected the City based upon our increased emphasis on the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development's programs and a citizen's complaint. Our objectives were to determine whether program funds used to pay the City's former Division of Real Estate and Redevelopment's (Division) staff salaries were reasonable and necessary and associated with eligible program activities.

What We Found

The City lacked sufficient documentation to support that it followed federal requirements when it used program funds to pay the Division's staff salaries from January through December 2003. As a result, it was unable to support its use of more than \$550,000 in program funds.

What We Recommend

We recommend that the Director of HUD's Columbus Office of Community Planning and Development require the City to provide documentation or reimburse its program from nonfederal funds for the unsupported salaries and implement adequate procedures and controls to address the finding 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 issued because of the audit.

Auditee's Response

We provided our discussion draft audit report to the director of the City's Department of Planning and Community Development, the city manager, and HUD's staff during the audit. We held an exit conference with the City's director on September 26, 2008.

We asked the City's director to provide comments on our discussion draft audit report by September 25, 2008. The director provided written comments, dated September 22, 2008, and agreed with our finding and recommendations. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Block Grant Program. Authorized under Title I of the Housing and Community Development Act of 1974, as amended, the Community Development Block Grant program (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 program 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 Dayton (City) was the first large city to adopt the council-manager form of government. The City is comprised of a mayor and four city commissioners. Each city commission member is elected at large on a non-partisan basis for four-year, over-lapping terms. All policy items are decided by the city commissioners, who are empowered by the city charter to pass ordinances and resolutions, adopt regulations, and appoint the city manager, who is responsible for managing the overall operations of the City's 16 departments. The City's Department of Planning and Community Development (Department) has lead oversight and production responsibility for the program, including the responsibility to ensure that outcomes are planned for, monitored, and reported. The Department's overall mission is to provide leadership and information to advance the quality of life in the City by guiding the development of physical and functional spaces, and by developing and empowering people. The City's program records are located at 101 West Third Street, Dayton, Ohio.

The following table shows the amount of program funds the U.S. Department of Housing and Urban Development (HUD) awarded the City for program years 2003 through 2008.

Program year	Program funds
2003	\$7,778,000
2004	7,675,000
2005	7,241,610
2006	6,501,915
2007	6,491,820
2008	<u>6,249,477</u>
Total	<u>\$41,937,822</u>

The City's former Division of Real Estate and Redevelopment (Division) received approximately \$600,000 in program funds in 2003 to pay staff salaries to manage the acquisition, disposition, and relocation activities associated with eligible program activities.

Our objectives were to determine whether program funds used to pay the City's former Division's staff salaries were reasonable and necessary and associated with eligible program activities.

RESULTS OF AUDIT

Finding: The City's Controls over Salaries in Its Former Division Were Inadequate

The City lacked sufficient documentation to support that it followed federal requirements when it used program funds to pay the Division's staff salaries from January through December 2003. The weaknesses occurred because the City lacked adequate procedures and controls to ensure that it maintained adequate documentation. As a result, it was unable to sufficiently support that more than \$550,000 in program funds used to pay the Division's staff salaries was reasonable and necessary and associated with eligible program activities.

The City Lacked Documentation to Support Its Use of More Than \$550,000 in Program Funds

The City lacked sufficient documentation to support that \$556,455 in program funds used to pay the Division's staff salaries from January through December 2003 was reasonable and necessary and associated with eligible program activities.

On June 18, 2008, the City provided us the Division's 2003 payroll time analysis (summary) worksheets for all staff in hard-copy format. However, the summary worksheets did not contain the actual activities administered by the Division's staff. Therefore, the City initially could not provide sufficient documentation to support its use of program funds to pay the Division's staff salaries from January through December 2003.

On August 7, 2008, the manager of the Division of Housing and Neighborhood Development (Housing) of the City's Department stated that the City did not maintain original timesheet documentation for the Division for fiscal year 2003. The Housing manager confirmed this statement on August 12, 2008, and said that the former Division manager discarded the original 2003 timesheets when she left employment with the City on December 22, 2006.

However, on August 20, 2008, nearly eight weeks after the documentation was originally requested, the City provided us the Division's 2003 timesheets for all staff in hard-copy format. In addition, an electronic version of the Division's 2003 timesheets was provided on August 21, 2008. Several discrepancies existed between the hard-copy and the electronic version of the Division's 2003 timesheets. Further, the Division's 2003 timesheets did not always agree with the

corresponding summary worksheets that were previously provided. According to a senior development specialist for the City's Office of Economic Development, the timesheets provided on August 20 and 21, 2008, may not have been the Division's final timesheets for 2003.

The City provided another version of the Division's 2003 timesheets on August 27, 2008, in hard-copy and electronic format. Once again, the City was unable to verify whether the timesheets were the Division's final timesheets that reflected the exact number of hours the Division's staff spent on each activity for fiscal year 2003.

The City Lacked Adequate Procedures and Controls

The weaknesses regarding the City's lacking sufficient documentation to support that staff salaries were reasonable and necessary and associated with eligible program activities occurred because the City lacked adequate procedures and controls to ensure that it appropriately followed federal requirements.

As previously mentioned, the former Division manager discarded the Division's original 2003 timesheets when she left employment with the City on December 22, 2006. According to the Housing manager, it was the understanding of the former Division manager that original timesheet documentation did not need to be maintained for more than three years. The Housing manager stated that the former Division manager's decision to discard the timesheets was based on the State of Ohio's record retention policy of three years as opposed to HUD's requirements.

Conclusion

The City did not comply with federal requirements when it used program funds to pay the Division's staff salaries. Therefore, HUD and the City lack assurance that \$556,455 in program funds used to pay the Division's staff salaries from January through December 2003 was reasonable and necessary and associated with eligible program activities.

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 program from nonfederal funds as appropriate for the \$556,455 in program funds used for the Division's staff salaries from January through December 2003.
- 1B. Implement adequate procedures and controls to ensure that the use of program funds for staff salaries is sufficiently supported in accordance with federal requirements.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws, HUD's regulations at 24 CFR [*Code of Federal Regulations*] Parts 85 and 570, and Office of Management and Budget Circular A-87.
- The City's accounting records, annual audited financial statements for 2006, data from HUD's Integrated Disbursement Information System, program activity files, policies and procedures, organizational charts, 2006 to 2010 consolidated plan, 2000 through 2008 proposed program/project cost summaries, and fiscal years 2000 through 2003 organization detail activity reports.
- HUD's files for the City.

We also interviewed the City's employees, HUD's staff and the complainant.

We performed our on-site audit work from April through September 2008 at the City's Department office located at 101 West 3rd Street, Dayton, Ohio. The audit covered the period January 2006 through February 2008 and was expanded as determined necessary.

We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being 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. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined 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 the following item is a significant weakness:

- The City lacked adequate procedures and controls to ensure that it complied with federal requirements regarding maintaining sufficient documentation to support its use of program funds (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	<u>\$556,455</u>
Total	<u>\$556,455</u>

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

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

<p>CITY OF DAYTON, OHIO DEPARTMENT OF PLANNING & COMMUNITY DEVELOPMENT</p>		<p>CITY HALL • 101 WEST THIRD STREET P.O. BOX 22 • DAYTON, OHIO 45401 937 333-3670 • FAX 937 333-4281 www.cityofdayton.org</p>
<p>September 22, 2008</p>		
<p>Mr. Brent Bowen Assistant Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of Inspector General 77 West Jackson Boulevard, Suite 2646 Chicago, IL 60604-3507</p>		
<p>Dear Mr. Bowen:</p>		
<p>Thank you for the opportunity to respond to the issues presented in the Draft Audit Report dated September 11, 2008. At hand are two issues to be resolved by the City of Dayton to the satisfaction of the HUD Columbus Field Office. First, supplying adequate documentation to support the expenditure of \$556,455.00 of Community Development Block Grant funds, and secondly, amending our internal controls to ensure records are maintained in accordance with 24 CFR 85.42(c).</p>		
<p>The City of Dayton concedes that the original, hard-copy timesheets for the Division of Real Estate and Relocation were prematurely discarded. The City is confident that we can work with the Columbus Field Office and provide the necessary documentation to show the costs incurred were reasonable and eligible.</p>		
<p>The City recognizes that the existing internal controls were inadequate to prevent the loss of the timesheets and to comply with 24 CFR 85.42(c). The City will update our records retention Policy to ensure future compliance, and review our internal controls policies and processes with the HUD Columbus Field Office. We will work with the Field Office to correct any deficiencies.</p>		
<p>Mr. Aaron Sorrell, Manager of Housing and Neighborhood Development, and his staff will Coordinate with the Field Office to address the concerns outlined in the Draft Audit Report.</p>		
<p>Sincerely,  John D. Gower Director</p>		

Comment 1

OIG's Evaluation of Auditee Comments

Comment 1 The City's proposed actions should address the recommendations, if fully implemented.

Appendix C

FEDERAL REQUIREMENTS

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) states that grantees must 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, obligations, 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.

HUD's regulations at 24 CFR 85.42(b)(1) state that records must be retained for three years from the starting date specified in 24 CFR 85.42(c). Section 85.42(c) states that when grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee submits to the awarding agency its single or last expenditure report for that period.

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 and 24 CFR Part 85. Section 570.502(a)(16) states that recipients that are governmental entities shall comply with 24 CFR 85.42, retention and access requirements for records, except that the period shall be four years.

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: (a) reflect an after the fact distribution of the actual activity of each employee, (b) account for the total activity for which each employee is compensated, (c) be prepared at least monthly and must coincide with one or more pay periods, and (d) be signed by the employee.