



Issue Date	August 18, 2009
------------	-----------------

Audit Report Number	2009-AT-1011
---------------------	--------------

TO: Maria R. Ortiz, Director of Community Planning and Development, Miami Field Office, 4DD

//signed//

FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The City of Miami, Florida, Did Not Properly Administer Its Community Development Block Grant Program

HIGHLIGHTS

What We Audited and Why

We audited the Community Development Block Grant (CDBG) program administered by the City of Miami, Florida (City). The objectives of the audit were to determine whether the City administered its CDBG program in accordance with applicable U.S. Department of Housing and Urban Development (HUD) requirements for: (1) meeting CDBG national objective(s), (2) allocation of expenditures to the CDBG program, and (3) reporting program activities. We selected the City for review because the Miami HUD Office of Community Planning and Development ranked it as high risk in its 2006, 2007, and 2008 risk assessments. In addition, previous HUD on-site monitoring reviews identified concerns regarding the City's administration of the CDBG program.

What We Found

The City did not administer its CDBG program in accordance with applicable HUD requirements. It did not comply with HUD requirements in meeting national objectives for its commercial façade program. This condition occurred because the City lacked effective management controls and disregarded HUD requirements. As a result, it had no assurance that more than \$4.1 million in expended CDBG funds achieved the intended national objective or met program requirements.

The City did not properly allocate salary expenditures to its CDBG program and did not maintain adequate supporting documentation demonstrating that employees worked in the program. These conditions occurred because the City did not have effective management controls to properly allocate salary expenditures to the CDBG program and disregarded HUD requirements. As a result, the City improperly allocated \$690,392 to the program.

The City did not accurately report CDBG financial information to HUD in accordance with federal requirements. It inaccurately reported administrative/planning costs for program year 2006 and failed to report \$265,823 in reprogrammed CDBG funds to HUD. These conditions occurred because the City was transferring financial information to another automated system and disregarded HUD regulations. As a result, there was a lack of assurance that the City reported accurate CDBG financial information to HUD in accordance with HUD regulations.

What We Recommend

We recommend that the Director of the Miami Office of Community Planning and Development require the City to (1) provide documentation to support that CDBG program requirements were followed and the intended national objective was met for two commercial façade activities or reimburse its program more than \$4.1 million from nonfederal funds, (2) reimburse its program \$690,392 from nonfederal funds for unsupported salary expenditures, and (3) provide documentation to support the reprogrammed funds or reimburse its program \$265,823 from nonfederal funds for canceled CDBG activities for which funds were reprogrammed.

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 discussed the findings with the City during the audit. We provided a copy of the draft report to City officials on June 29, 2009, for their comments and discussed the report with the officials at the exit conference on July 10, 2009. The City provided its written comments to our draft report on July 22, 2009. In its response, the City generally disagreed with the findings but agreed to implement corrective actions.

The complete text of the City's response, along with our evaluation of the response, can be found in appendix B of this report. Attachments to the City's comments were not included in the report, but are available for review upon request.

TABLE OF CONTENTS

Background and Objective	5
Results of Audit	
Finding 1: The City Did Not Demonstrate Compliance in Meeting National Objectives for Its Commercial Façade Program	6
Finding 2: The City Did Not Properly Allocate Salary Expenditures to the CDBG Program	9
Finding 3: The City Did Not Accurately Report CDBG Financial Information to HUD	12
Scope and Methodology	15
Internal Controls	17
Appendixes	
A. Schedule of Questioned Costs	18
B. Auditee Comments and OIG’s Evaluation	19
C. Canceled CDBG Activities and Reprogrammed CDBG Funds	28

BACKGROUND AND OBJECTIVE

The City of Miami, Florida (City) receives annual Community Development Block Grant (CDBG) program funds from the U.S. Department of Housing and Urban Development (HUD). HUD awards annual grants to entitlement community recipients to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services, principally for low- and moderate-income persons. An activity that receives CDBG funds must meet one of three national objectives:

- Benefit low- and moderate-income families,
- Aid in the prevention or elimination of slums or blight, or
- Meet community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and when other financial resources are not available.

The City's Department of Community Development administers the CDBG program. It administers programs intended to assist in creating a viable urban community for the neediest persons within the City while reducing poverty, embracing diversity, assisting with economic development, and improving the overall quality of life.

The HUD Integrated Disbursement and Information System (IDIS) reported that the City expended more than \$17.9 million in CDBG funds for 2006 and 2007.

We selected the City for review because the Miami HUD Office of Community Planning and Development ranked it as high risk in its fiscal years 2006, 2007, and 2008 risk assessments. In addition, the 2006 Miami HUD monitoring review of the commercial façade program identified concerns regarding the meeting of national objectives and eligibility of projects.

Our audit objectives were to determine whether the City administered its CDBG program in accordance with applicable HUD requirements for: (1) meeting CDBG national objective(s), (2) allocation of expenditures to the CDBG program, and (3) reporting program activities.

RESULTS OF AUDIT

Finding 1: The City Did Not Demonstrate Compliance in Meeting National Objectives for Its Commercial Façade Program

The City did not demonstrate compliance with HUD requirements in meeting national objectives for its commercial façade program. It did not maintain adequate supporting documentation to demonstrate that the program achieved the intended national objectives. This condition occurred because the City lacked effective management controls and disregarded HUD requirements. As a result, it had no assurance that more than \$4.1 million in expended CDBG funds achieved the intended national objective or met program requirements.

We selected eight activities to determine whether the City maintained sufficient documentation to demonstrate that it met a national objective. The City did not maintain adequate supporting documentation to demonstrate that two activities met a national objective.

Supporting Documentation Inadequate to Meet National Objectives

The City did not maintain adequate supporting documentation for two commercial façade activities to demonstrate that national objectives would be met. Regulations at 24 CFR [*Code of Federal Regulations*] 570.506(b) state that records must be maintained to demonstrate that each activity undertaken meets one of the national objective criteria.

The commercial façade program activities were to provide assistance to for-profit businesses to rehabilitate the exterior of the business. The national objective was to benefit low- and moderate-income persons based on the area served by the activities. We reviewed seven completed CDBG projects from activity #1954 and 16 completed CDBG projects from activity #2125.

The City provided inadequate documentation to support that the 23 projects served areas that were primarily residential in nature. Regulations at 24 CFR 570.208(a)(1)(i) require that an activity that serves an area that is not primarily residential in character shall not qualify as a low- and moderate-income area. We informed City officials about this issue, and they provided us with maps for several projects to illustrate that the area served was primarily residential in nature. The maps did not include adequate information to show whether the area served was primarily residential; they did not identify the area served and focused instead on the location of the business. The maps did not contain a legend to identify the symbols. Some maps indicated a commercial zone, whereas others

did not identify a zone type. While we recognize the City's attempt to provide documentation supporting that the national objective was met, the City did not demonstrate that the area served was primarily residential in nature.

This condition occurred because the City lacked effective management controls over its commercial façade program activities and disregarded HUD requirements. Specifically, the City did not follow its own policies and procedures to ensure effective performance and compliance with federal regulations for meeting national objectives. City officials did not know that they were required to maintain documentation supporting that the areas serviced were primarily residential in nature, but they informed us that City inspectors made on-site visits and observed the area to determine whether it was primarily residential. However, the City's policies and procedures described the inspectors' sole responsibility as reviewing the work performed and conducting the environmental inspection. We did not find documentation indicating that the inspectors evaluated the service area.

Based on conversations with City officials and review of the City's policies and procedures and CDBG program files, we consider all CDBG projects funded for activities #1954 and #2125 to be missing adequate supporting documentation to meet the low- and moderate-area national objective. As a result of the condition noted above, we were unable to confirm whether a national objective was met for two commercial façade program activities that were provided more than \$4.1 million¹ in CDBG funds.

Conclusion

The City did not demonstrate commercial façade program compliance with HUD requirements for meeting a national objective for two CDBG activities. Our review of eight activities indicated that the City did not maintain adequate documentation to support that a national objective was met for two commercial façade program activities. This condition occurred because the City lacked effective management controls and disregarded HUD requirements. As a result, it had no assurance that two CDBG commercial façade program activities totaling more than \$4.1 million achieved the intended national objective or met program requirements.

¹ The City expended \$1,872,817 in CDBG funds for activity #2125 and \$2,322,262 for activity #1954. We reduced \$2,322,262 by \$38,879 because HUD had previously requested reimbursement for two projects from activity #1954. Total expended CDBG funds for both activities are \$4,156,200.

Recommendations

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

- 1A. Provide documentation supporting that CDBG program requirements were followed and the intended national objective was met for two CDBG activities according to 24 CFR 570.506 and 570.208 or reimburse its program \$4,156,200 from nonfederal funds.
- 1B. Revise its policies and procedures to ensure that commercial façade program activities comply with federal regulations for meeting CDBG national objectives.

Finding 2: The City Did Not Properly Allocate Salary Expenditures to the CDBG Program

The City did not properly allocate salary expenditures to its CDBG program and did not maintain adequate supporting documentation demonstrating that employees worked in the program. These conditions occurred because the City did not have effective management controls to properly allocate salary expenditures to the CDBG program and disregarded HUD requirements. Without supporting documentation to substantiate the allocations of actual services performed by personnel or some type of quantifiable measure of employee effort, the City had no assurance that salary expenditures were accurate and CDBG program related. As a result, the City improperly allocated \$690,392 to the CDBG program.

Salary Expenditures Not Properly Allocated to the CDBG Program

The City did not properly allocate salary expenditures to the CDBG program. Regulations at 2 CFR Part 225, appendix B, paragraph 8h(4), require that a distribution of salaries or wages be supported by personnel activity reports or equivalent documentation for employees that work on multiple activities or cost objectives.

We selected salary expenditures from three pay periods in program years 2006 and 2008 for a total of six pay periods. The City did not follow federal requirements that adequate supporting documentation be maintained on the distribution of salaries of those employees that worked on multiple programs. For program year 2006, the City indicated that the salary allocation percentage for each employee for federal and nonfederal programs was prepared by the budget department and other directors and supervisors. The City did not maintain adequate documentation supporting the actual time worked by employees between federal and nonfederal programs. Regulations at 2 CFR Part 225, appendix B, paragraph 8h(5)(e), state that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes. As a result, we consider \$244,900 allocated to the CDBG program to be an unsupported cost.

No.	Pay period	Total salary expenditure	Unsupported salary expenditure
1	Apr. 14, 2007	\$83,179	\$76,615
2	Sept. 15, 2007	\$94,465	\$90,954
3	Sept. 29, 2007	\$80,842	\$77,331
Subtotal in program year 2006			<u>\$244,900²</u>

For program year 2008, City officials indicated that the salary allocation process had not changed except for the preparation of timesheets. The City did not prepare biweekly timesheets until program year 2008. The biweekly timesheets were prepared by the City for each pay period according to the approved salary allocation for each employee. The employees were required to certify by means of their biweekly timesheets that they worked the hours allocated to the different programs. If the hours shown on the biweekly timesheets were incorrect, the employees were to submit a form with the revised hours to the director for approval.

City employees appeared to be routinely certifying through their biweekly timesheets that they worked a percentage of time on a particular program although they may not have actually worked on that program. As indicated above, the City did not maintain adequate documentation supporting the actual time worked by employees between federal and nonfederal programs. Several City employees also certified hours on their biweekly timesheets for the CDBG program that did not agree with the hours reported in the City's financial system and exceeded the approved salary allocation percentage. In addition, three employees revised timesheets that were not approved by the director, and the revisions appeared in the City's financial system.

We consider all CDBG salary expenditures for program year 2008 to be missing adequate documentation supporting the actual hours worked on the program. As a result, we consider \$445,492 allocated to the CDBG program to be an unsupported cost.

No.	Pay period	Total salary expenditure	Unsupported salary expenditure
4	Oct. 25, 2008	\$57,985	\$57,985
5	Nov. 8, 2008	\$61,299	\$61,299
6	Jan. 17, 2009	\$57,388	\$57,388
Subtotal			<u>\$176,672</u>
Total unsupported salary expenditures in program year 2008			<u>\$445,492</u>

² We deducted \$13,586, which represents those employees who worked 100 percent in the CDBG program.

This condition occurred because the City did not maintain effective management controls to properly allocate salary expenditures to the CDBG program and disregarded HUD requirements. The City did not have written procedures for salary allocation among CDBG and other federal and nonfederal programs and did not require its employees to maintain documentation supporting the time worked for each federal or nonfederal program. City officials also believed that the methodology it used to allocate salary expenditures was adequate.

Without supporting documentation to substantiate the allocations of actual services performed by personnel or some type of quantifiable measure of employee effort, we had no assurance that salary expenditures were accurate and CDBG program related. As a result, we consider \$690,392 allocated to the CDBG program to be an unsupported cost.

Conclusion

The City improperly allocated salary expenditures to the CDBG program without adequate supporting documentation demonstrating that employees worked in the program. This condition occurred because the City did not have effective management controls to properly allocate salary expenditures to the CDBG program and disregarded HUD requirements. As a result, the City had no assurance that \$690,392 in salary expenditures was accurate and CDBG program related.

Recommendations

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

- 2A. Reimburse its program \$690,392 for unsupported salary expenditures from nonfederal funds.
- 2B. Develop a salary allocation method that complies with 2 CFR Part 225.
- 2C. Develop, implement, and enforce written procedures for salary allocation among federal and nonfederal programs to include documentation requirements for its employees.

Finding 3: The City Did Not Accurately Report CDBG Financial Information to HUD

The City did not accurately report CDBG financial information to HUD in accordance with federal requirements. It reported more than \$1.7 million in administrative/planning costs to HUD but reported more than \$1.9 million in its financial system. In addition, it failed to report \$265,823 in reprogrammed CDBG funds to HUD. These conditions occurred because the City was transferring financial information to another automated system and disregarded HUD regulations. As a result, there was a lack of assurance that the City reported accurate CDBG financial information to HUD in accordance with HUD regulations.

Administrative/Planning Costs Not Accurately Reported to HUD

The City did not accurately report CDBG financial information to HUD. It reported more than \$1.7 million in administrative/planning costs to HUD in program year 2006, but the City's financial system showed more than \$1.9 million. Regulations at 24 CFR 85.20 require that accurate, current, and complete disclosure of the financial results of financially assisted activities be in accordance with the financial reporting requirements of the grant.

The City attempted to reconcile the discrepancies between IDIS and the City's financial system. The City reported transactions totaling \$53,258 in IDIS that did not belong to program year 2006, and it reported \$1,019 in IDIS that it could not explain. The City also reported \$265,823 in its financial system representing reprogrammed CDBG funds that was not reported to HUD (see below). The net amount of these transactions totaled \$211,546 that was inaccurately reported to HUD.

Reprogrammed CDBG Funds Not Reported to HUD

The City reprogrammed \$265,823 in CDBG funds to administrative/planning activity for four canceled activities without notifying HUD and conducted public hearings for only one activity. Regulations at 24 CFR 91.505(a) require that the jurisdiction amend its approved plan whenever it makes one of the following decisions: (1) to make a change in its allocation priorities or a change in the method of distribution of funds; (2) to carry out an activity, using funds from any program covered by the consolidated plan (including program income), not previously described in the action plan; or (3) to change the purpose, scope, location, or beneficiaries of an activity. (b) The jurisdiction shall identify in its citizen participation plan the criteria it will use for determining what constitutes a substantial amendment. It is these substantial amendments that are subject to a

citizen participation process in accordance with the jurisdiction's citizen participation plan. (c) Upon completion, the jurisdiction must make the amendment public and must notify HUD that an amendment has been made. The jurisdiction may submit a copy of each amendment to HUD as it occurs or at the end of the program year. Letters transmitting copies of amendments must be signed by the official representative of the jurisdiction authorized to take such action.

City officials claimed that the conditions described above occurred because the City was transferring financial information to another automated system. The transfer of financial information between systems created a number of problems for users of the financial records. City officials claimed that canceling the CDBG activities in IDIS was sufficient to notify HUD about the cancelation and reprogramming of CDBG funds from one activity to another.

As a result of the conditions noted above, there was a lack of assurance that the City reported accurate CDBG financial information to HUD in accordance with HUD regulations. In addition, we consider \$265,823 in reprogrammed CDBG funds not reported to HUD to be an unsupported cost.

Conclusion

The City did not accurately report CDBG financial information to HUD. It also improperly reprogrammed CDBG funds from four canceled activities without notifying HUD. These conditions occurred because the City was transitioning to another financial system and disregarded HUD regulations. As a result, there was a lack of assurance that the City reported accurate CDBG financial information to HUD in accordance with HUD regulations. The City should provide documentation supporting the reprogrammed funds or reimburse its program \$265,823 for improperly reprogramming CDBG funds for four canceled activities without notifying HUD. See appendix C for a list of the canceled activities.

Recommendations

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

- 3A. Provide documentation supporting that CDBG program requirements were followed or reimburse its program \$265,823 from nonfederal funds.
- 3B. Reconcile CDBG administrative/planning costs between IDIS and the City's financial system.

- 3C. Ensure that all CDBG activities are properly reported in IDIS and the City's financial system on a timely basis.
- 3D. Notify HUD of all substantial changes to CDBG activities in accordance with HUD regulations.

SCOPE AND METHODOLOGY

Our audit objectives were to determine whether the City administered its CDBG program in accordance with applicable HUD requirements for: (1) meeting CDBG national objective(s), (2) allocation of expenditures to the CDBG program, and (3) reporting program activities.

To accomplish our objectives, we

- Reviewed relevant HUD regulations and guidebooks;
- Reviewed relevant City policies and procedures and independent public accountant reports;
- Interviewed HUD and City officials;
- Reviewed HUD files to include IDIS reports and monitoring reports;
- Reviewed City financial records; and
- Reviewed City files and records to include the subrecipient contract, resolutions, and monitoring reports.

We obtained a list of CDBG-funded activities administered by the City from October 1, 2006, to September 30, 2008. The City reported 165 completed activities, and we selected eight activities (representing 37 percent of total expenditures) to determine whether the City met a national objective. We selected activities from each of the four subcategories to benefit low- and moderate-income individuals (area benefit, limited clientele, housing, and job creation or retention) and activities with large CDBG expenditures.

We performed a cursory review of CDBG administrative/planning costs for program year 2006 (October 1, 2006, to September 30, 2007) and noted that salary expenditures represented approximately 81 percent or \$1,606,103 of the administrative/planning costs. Since City officials informed us that they did not maintain adequate supporting documentation for salary expenditures, we selected three pay periods with the largest amount of salary expenditures, totaling \$258,486, to determine whether they were properly allocated to the CDBG program. City officials also informed us that biweekly timesheets were required to support the City's salary allocation beginning in October 2008. The City provided us with a listing of salary expenditures for program year 2008 (October 2008 to January 17, 2009).³ We selected three pay periods with the largest amounts of salary expenditures, totaling \$176,672, to determine whether they were properly allocated to the CDBG program. Our overall selection represents approximately 21 percent of total salary expenditures for program years 2006 and 2008 (as of January 17, 2009).

³ We requested salary expenditures incurred in program year 2008 early in 2009. The City provided us with salary information as of January 17, 2009. The City's program year 2008 is ongoing (October 1, 2008 – September 30, 2009).

We verified whether CDBG administrative/planning costs were reported accurately between the City's financial system and IDIS for fiscal year 2006 (October 1, 2006, to September 30, 2007). IDIS generates reports from the submission of the City's consolidated annual performance and evaluation report to HUD. We compared the financial summary report (PR-26) to the City's financial system.

We assessed the reliability of computer-processed data reported in IDIS and in the City's financial system for salary expenditures and national objectives. We traced salary expenditures to and from the source documents to assess the reliability of salary expenditures reported in IDIS and the City's financial system. During program year 2006, the City did not require documentation supporting its employees' time distribution. The City indicated that hours charged to the CDBG program were based on an estimated yearly budget determined by City officials. The City did not maintain adequate documentation supporting the actual time worked by employees between federal and nonfederal programs. In program year 2008, City officials indicated that beginning in October 2008, it required biweekly timesheets to support its salary allocation. We identified inconsistencies between what was reported in 13 biweekly timesheets and the City's financial system. The City lacked adequate controls to ensure that valid and reliable data were obtained, maintained, and accurately reported in IDIS and the City's financial system. Therefore, we consider salary expenditures reported in IDIS and the City's financial system to be unreliable. For purposes of determining questioned costs, we used the CDBG expenditures reported in the City's financial system.

For national objectives, we tested the accuracy of the City drawdowns of CDBG funds reported in IDIS and the expenditures reported in the City's financial system. Based on our tests, we found that the drawdowns were generally supported by the expenditures reported in the City's financial system for those activities funded from October 2007 to September 2008. We also found that the expenditures reported in the City's financial system were supported and accurate and thus could be relied upon for our audit purposes. Therefore, we used the CDBG expenditures reported in the City's financial system for questioned costs.

Due to the volume of CDBG activities and administrative/planning costs, we did not perform a 100 percent review. The results of the audit apply only to the items selected and were not projected to the universe or population.

The audit generally covered the period October 1, 2006, through September 30, 2007, and we extended the period as needed to accomplish our objective. We conducted our fieldwork from November 2008 through May 2009 at the City's offices located at 444 Southwest 2nd Avenue, Miami, Florida.

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

INTERNAL CONTROLS

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

- Effectiveness and efficiency of program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and 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:

- Controls over program operations;
- Controls over the reliability of data;
- Controls over compliance with laws and regulations; and
- Controls over the safeguarding of resources 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 Weaknesses

Based on our review, we believe that the following items are significant weaknesses:

- The City did not demonstrate compliance in meeting national objectives for its commercial façade program (see finding 1).
- The City did not properly allocate salary expenditures to the CDBG program (see finding 2).
- The City did not accurately report CDBG financial information to HUD (see finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Unsupported 1/</u>
1A	\$4,156,200
2A	690,392
3A	<u>265,823</u>
	<u>\$ 5,112,415</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

<h2>City of Miami</h2>  <p>PEDRO G. HERNANDEZ, P.E. City Manager</p>	
<p>July 22, 2009</p> <p>James D. McKay Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of the Inspector General for Audit, Region 4 Richard B. Russell Federal Building 75 Spring Street SW, Room 330 Atlanta, GA 30303-3388</p> <p>Dear Mr. McKay:</p> <p>The City of Miami Department of Community Development is in receipt of your draft audit report for the Community Development Block Grant (CDBG) program administered by this department. Thank you for the opportunity to provide comments to the report and the opportunity for further clarification of the findings at the exit interview with OIG staff.</p> <p>The Department is committed to ensuring that all funds are administered in strictest accordance with all regulations. Whereas the department understands the reasoning for the findings, we disagree that the findings support the statement that the department did not administer its CDBG program in accordance with applicable HUD requirements and that all the funds in question should be return to the CDBG line of credit with non-federal source.</p> <p>Please see the attachment for the department's comments.</p> <p>Thank you.</p> <p>Sincerely,</p> <p> George Mensah Director</p>	
<p>DEPARTMENT OF COMMUNITY DEVELOPMENT 444 S.W. 2nd Avenue, 2nd Floor / Miami, Florida 33130 / (305) 416-2080 / Fax: (305) 416-2090 Mailing Address: P.O. Box 330708-0708 Miami, FL 33233-0708</p>	

CITY OF MIAMI
DEPARTMENT OF COMMUNITY DEVELOPMENT

RESPONSE TO OIG AUDIT

FINDING 1: The City Did Not Demonstrate Compliance in Meeting National Objectives for its Commercial Façade Program

Background: The City of Miami has one of the highest poverty rates and one of the lowest median incomes among large US cities. While neighborhoods near the water consist of condominiums and tend to have higher incomes, the majority of the neighborhoods such as East Little Havana, Wynwood, Overtown, Model City, Edison/Little River/Little Haiti, Allapattah and West Coconut Grove consist of bedroom communities with lower incomes. As with all bedroom communities, these neighborhoods include various commercial blocks with businesses that serve the residents of the communities. The intent of the City's façade program is to provide assistance to low and moderate income residents in these neighborhoods by facilitating the existence of businesses that provides services to the neighborhood.

Supporting Documentation Inadequate to meet National Objectives

The City's façade program meets the CDBG national objective of serving low and moderate income persons on area wide basis. The City of Miami Policies and Procedures Manual ("Manual") for the years being audited defines "Eligible Service Area" as "... census tract areas with 51% or more low/moderate income persons...". It also states that "*The area must also be primarily residential in character as outlined by the regulation.*" Businesses meeting these requirements are eligible to participate in the City's façade program.

During the period of July 26, 2006 through September 28, 2006, the City's façade program was audited by the local HUD office. After the audit, a series of correspondence between the City and local HUD occurred, copies of which were provided to OIG staff. HUD's audit of the façade program consisted of a "*review of the façade project files, census tract data and site visits to completed façade sites in order to determine area benefit*". The audit disallowed façade projects completed in the City's downtown area because the area "*is not primarily residential in character*". The City has to repay more than \$400,000 to its CDBG line of credit as a result of this audit. The City was therefore of the understanding that, it is an irrefutable fact that all other areas of the City were classified as primarily residential and that project files were properly documented.

The City was therefore of the understanding that (1) all areas of the City except for downtown could be classified as primarily residential and in compliance with 24 CFR 570.208(a)(1) and

Comment 1

that no additional information was needed in the file; and that (2) the information included in the files (mentioned above) complied with Regulation 24 CFR 570.506(b)(2)(i) and 24 CFR 570.506(b)(2)(ii) which require that the recipient maintains sufficient records that include information regarding the boundaries of the service area and the income characteristics of families and unrelated individuals in the service area.

Conclusion

The City does not agree with OIG's determination that HUD's national objective was not met. The documentation in the file support that the objective of serving low and moderate income persons on an area-wide basis was met. City staff inspects the business and the surrounding area and reports any condition that does not meet program parameters. However, the City agrees that additional documentation could have been provided in the file. The documentation in the file does support the national objective, however it was not concise enough and depends on the auditor to make assumptions since the document did not specifically mention the service area and did not specifically mention that the service area is primarily residential in nature.

Corrective Action

The City will work with the local HUD office to ensure that appropriate, adequate and clear information is included in each façade file to fully document compliance with the requirements established at 24 CFR 570.506 and 24 CFR 570.208(1)(a). The City will submit HUD thorough documentation for each individual façade to demonstrate that the intended national objective – *Area Benefit* - was met. The City will also revise its policies and procedure for the façade program (detailed in the City of Miami Commercial Façade Program Policies and Procedures Manual) to ensure that in the future, façade files contain all the necessary information to clearly demonstrate that the activity complies with federal regulation and that the intended national objective was met.

FINDING 2: The City Did Not Properly Allocate Salary Expenditures to the CDBG Program

Background

The City of Miami has a Department, Community Development (“Department”), which is responsible for the performance and administration of the Entitlement grants from the United States Department of Housing and Urban Development (HUD). In addition to the entitlement grants, the Department administers two non federal funds which are supplemental to the CDBG and HOME programs. These two funds provide grants and loans for low and moderate income families to provide affordable housing to the citizens of Miami, Florida. All these funds have as a common denominator the primary objective which is the development of viable urban

communities by providing decent housing and a suitable living environment principally for persons of low and moderate income.

Salary Expenditures Not Properly Allocated to the CDBG Program

The City agrees that for the 2006 program year, salaries were not supported in accordance with 2CFR Part 225, appendix B, paragraph 8h(4). However, all salary expenditures were only related to personnel directly associated with activities mentioned in the Consolidated Plan as part of the strategy to provide decent housing and a suitable living environment for low and moderate income persons. All payroll expenses were allocated in a reasonable, consistent and justifiable manner.

For program year 2008, the City changed its methodology of charging salaries to the various federal and non-federal programs. The allocation of expenses on a biweekly basis was certified by each employee in the Department that it corresponded with his or her workload. The Department was under the impression that such system would comply with the requirements of OMB Circular A-87.

This policy change was communicated to Local HUD in January 2009, in response to a monitoring review. Until the date of the exit interview, the City had not received a response from Local HUD indicating that this method would not be acceptable. The City therefore believed that its method was in compliance with 2 CFR Part 225, appendix B, paragraph 8h(5) which is the equivalent documentation accepted by 2 CFR Part 225, appendix B, paragraph 8h(4).

Conclusion

The City agrees with the conclusion that it allocated salary expenditures to the CDBG program especially for the 2006 program year without proper documentation. For 2008 program year, the City believes that it provided information in advance for HUD to advise the City as to whether the method of allocating salaries and certifying allocations was proper.

The City further believes that all salary expenditures during the period under audit were eligible, properly chargeable to CDBG in accordance with 24 CFR 570.206 as follows: *"Payment of reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part with funds provided under this part and, where applicable, housing activities (described in paragraph (g) of this section) covered in the recipient's housing assistance plan."*

The City requests the opportunity to support the propriety of those costs that were properly incurred even though documentation will need to be improved.

Corrective Action

The Department is currently looking to amend its current policy to require staff to prepare an activity report on a biweekly period and not certify the allocation prepared by their supervisors to be implemented immediately. Comparisons will be made to the current allocation and all adjustments made at the end of the fiscal year.

For the upcoming 2009 program year, the Department has already consulted CPA firms to provide proposals on the preparation of salary allocations to be provided to local HUD for approval.

We believe that the above will support that the City was charging expenses properly during the 2006 and the 2008 program years and will be in compliance for all future federal funds.

FINDING 3: The City Did Not Accurately Report CDBG Financial Information to HUD

Background: The Department of Community Development relies on the financial systems of the City maintained by the Finance Department to keep its financial records for all federal and non-federal funds. In 2006, the City moved from one accounting system (GEMS) to a new accounting system (Oracle). Due to this change over, the City's books were not closed until April 2007.

Administrative/Planning Costs Not Accurately Reported to HUD

The City believes that administrative and planning costs were accurately reported in IDIS but that the IDIS report used by the City in preparing the financial report, PR26, did not pick up certain activities. Therefore the City agrees with the OIG draft report that the 2006 financial record did not accurately portray all transactions that took place for the 2006-2007 program year.

On an annual basis, the City, as part of the CAPER, reports to HUD, financial transactions for the year. PR26 which is produced by IDIS allows an entitlement agency to reconcile the account in its financial system with that in IDIS. There is also an ability to provide an adjustment on lines 7 and 14 for the report to balance out. For the 2006-2007 financial year, IDIS reported an amount of \$1,765,166.14 as disbursed for program administration. The City's financial records showed an amount of \$1,976,712.37, showing a difference of \$211,546.23. A detailed review of the drawdown vouchers showed that the difference is in part due to certain vouchers which were revised in IDIS as shown in Table 1 below which amounted to \$265,823.

Table 1: Reprogrammed IDIS Vouchers

VOUCHER NUMBER	LINE ITEM	IDIS ACT ID	P Y	VOUCHER CREATED	VOUCHER STATUS	STATUS DATE	LOCCS SEND DATE	FUND TYPE	DRAWN AMOUNT
981839	3	2165		2/12/2004	COMPLETE	5/9/2007	2/20/2004		1,590.00
1001022	2	1939		4/6/2004	COMPLETE	3/5/2007	4/8/2004	EN	1,250.00
1030963	2	2165		6/28/2004	COMPLETE	5/9/2007	7/1/2004	EN	251,340.00
1033966	2	1939		7/7/2004	COMPLETE	3/5/2007	7/8/2004	EN	2,240.00
1043054	2	2165		8/3/2004	COMPLETE	5/9/2007	8/5/2004	EN	62.00
1069753	2	2165		10/19/2004	COMPLETE	5/9/2007	10/21/2004	EN	795.00

1099650	2	1939	1/13/2005	COMPLETE	3/5/2007	1/14/2005	EN	3,776.2
1103561	2	1939	1/25/2005	COMPLETE	3/5/2007	1/25/2005	EN	4,770.0

As is evidenced in Table 1 above, the original vouchers were created in 2004 and 2005. They were revised and changed to administration. The revisions did not create additional monies for administration and planning; rather, it reduced the amount of funds available to be drawn for administration in the year. Staff believed that by making the change in IDIS to the matrix code for administration, these expenditures will be recognized as administration/planning and be reported as such. Staff did not believe at the time of the report that the amount reported by IDIS was an error. We believed that had the City's financial records been up to date, probably this error would have been identified and an inquiry sent to HUD. The \$265,823.25 difference was therefore actually reported to HUD in the same manner as all administrative transactions are reported to HUD through the IDIS system. Therefore regulations at 24 CFR 85.20 requiring that accurate, current, and complete disclosure of the financial results of financially assisted activities be in accordance with the financial reporting requirements of the grant, were met.

Reprogrammed CDBG Funds Not Reported to HUD

The amount of \$265,823.25 was reprogrammed as presented in Table 1 above. This amount includes an amount of \$253,787 used by a non-profit agency to purchase land for a HUD section 202 project that took more than a year to start. The recapturing of the funds took place in front of the City's Housing and Commercial Loan Committee (HCLC) which was duly advertised according to the City's Citizen Participation Plan (CPP). Generally, the City deobligates or recaptures funding from projects first and then allocates funding in another meeting. The funds allocated may come solely or partly from the previously deobligated or recaptured funds. The City believes that this procedure does not in any way contradict the City's CPP since the obligation of any funds in the City always requires a public hearing.

The other revised IDIS vouchers for \$5,026, \$2,240 and \$4,770 were funds left over for closed out CDBG activities. These funds were reported to HUD through the City's substantial amendment to HUD for the 2006-2007 program year (see Attachment 1, Page 10). These close-out funds were advertised and approved by the City Commission. The City did not include the cancellation of the Section 202 project in its substantial amendment since the project itself was not actually cancelled because the City had other federal funds in the project.

Conclusion

The City does not agree with the recommendation that the funds be repaid since they were used for eligible activities and the Citizen Participation Plan of the City was followed in all instances.

Comment 3

Corrective Action

The City has already changed its Citizen Participation Plan to define what constitutes a substantial amendment. In addition, the City's new financial system is working very well and there is no anticipation that it will be changed in the near future. The City will continue to submit all substantial changes to its Annual Action Plan to HUD as required.

OIG Evaluation of Auditee Comments

Comment 1 The City stated that it did not agree with our determination that the national objective was not met, and contended that City staff inspects the business and surrounding area and reports any condition that does not meet program parameters.

The City provided us with documentation that it inspected the businesses to ensure the work was completed, and performed the environmental and flood inspections. However, the City failed to provide us with supporting documentation that the service area was primarily residential in nature to achieve the intended national objective.

The City said it would work with the local HUD office to ensure that appropriate, adequate and clear information is included in each façade file to fully document compliance with the requirements established at 24 CFR 570.506 and 24 CFR 570.208(1)(a). The City will submit to HUD thorough documentation for each individual façade to demonstrate that the intended national objective – *Area Benefit* - was met. The City will also revise its policies and procedure for the façade program (detailed in the City of Miami Commercial Façade Program Policies and Procedures Manual) to ensure that in the future, façade files contain all the necessary information to clearly demonstrate that the activity complies with federal regulation and that the intended national objective was met.

Comment 2 The City agreed that it allocated salary expenditures to the CDBG program especially for the 2006 program year without proper documentation, but believed that all salary expenditures during the period under audit were eligible, and properly chargeable to CDBG in accordance with 24 CFR 570.206.

The City did not provide us with supporting documentation that the salary expenditures we reviewed during our audit were eligible and properly chargeable to CDBG in accordance with 24 CFR 570.206. We maintain that the City improperly allocated salary expenditures to the CDBG program without adequate supporting documentation demonstrating that employees worked in the program.

The City agreed documentation needs to be improved and will amend its current policy to require staff to prepare an activity report on a biweekly period and has already consulted CPA firms to provide proposals on the preparation of salary allocations.

Comment 3 The City contended the reprogrammed funds were used for eligible activities, and indicated that the revised IDIS vouchers for \$5,026, \$2,240 and \$4,770 were reported to HUD through the City's substantial amendment to HUD for the 2006-2007 program year. The City provided us with this amendment.

We reviewed the amendment and agree that the City reported these reprogrammed CDBG funds to HUD. We corrected appendix C to reflect this. The amendment indicates that the funds were reallocated to Section 108 debt service. However, the City reported in the HUD IDIS system that these funds were reallocated to administrative/planning costs. In addition, the City failed to provide supporting documentation that the reallocation of these funds involved conducting public hearings. Therefore, we maintain that the City failed to report accurate financial information to HUD in accordance with federal requirements.

Appendix C

CANCELED CDBG ACTIVITIES AND REPROGRAMMED CDBG FUNDS

#	Canceled activity #	CDBG funds reprogrammed to administrative/planning activity	City conducted public hearings ⁴ yes/no	City notified HUD yes/no
1	1567	\$ 253,787(1)	yes	no
2	1406	5,026	no	yes
3	1511	2,240	no	yes
4	1601	4,770	no	yes
	Total	\$ 265,823		

Note:

- (1) The City informed citizens during the public hearing about the cancellation of the activity but did not inform them regarding the use of the reprogrammed CDBG funds. According to the City, no other hearings were held to discuss the use of the funds. The City did not inform HUD about the reprogramming of these funds to the administrative/planning activity.

⁴ Based on the City's citizen participation plan, revised in November 2005, any changes made in the use of funds are considered substantial and require that a substantial amendment be made to its consolidated plan. In addition, it needed to conduct a public hearing informing its citizens of the cancellation and reprogramming of funds it planned to make. The cancellation of these activities and reprogramming of funds occurred in program year 2006.