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| Issue Date March 31, 2010 |
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| Audit Report Number 2010-AT-1002 |
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TO: Maria R. Ortiz, Director of Community Planning and Development, Miami Field Office, 4DD

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

SUBJECT: Broward County, FL, Needs To Strengthen Controls Over Its Neighborhood Stabilization Program

HIGHLIGHTS

What We Audited and Why

We audited the Neighborhood Stabilization Program (Program) administered by Broward County, FL (County). We performed the audit because Housing and Economic Recovery Act of 2008 (HERA) reviews are part of the Office of Inspector General's (OIG) annual audit plan and we identified the program as high risk. In addition, the County received more than \$17.7 million in Program funds under HERA.

Our objective was to determine whether the County had the necessary controls to administer its Program in accordance with HERA. Specifically, we evaluated whether the County had adequate (1) management controls to ensure that activities met Program objectives and (2) financial controls to ensure that obligations were timely and valid and expenditures were allowable and properly reported.

What We Found

The County had (1) adequate management controls to ensure that activities met Program objectives and (2) adequate financial controls to ensure that obligations were timely and valid and expenditures were allowable. However, it needs to strengthen some controls over its Program. The County did not accurately report Program financial information to the U.S. Department of Housing and Urban Development (HUD) and incorrectly posted Program expenditures to the wrong fiscal year in its financial management system. In addition, it did not post first and second quarter Program performance reports to its Web site in a timely manner. These conditions occurred because the County (1) had inadequate controls to ensure that administration costs were properly reported to HUD and Program costs were appropriately recorded in its financial management system and (2) was unaware of the Web site requirements. As a result, HUD has no assurance of the County's actual financial progress of its Program and the County overstated its obligation and expenditures in its financial management system. In addition, the citizens of Broward County were not informed in a timely manner regarding the use of Program funds.

What We Recommend

We recommend that the Director of the Miami Office of Community Planning and Development require the County to (1) establish controls to reconcile Program obligations and expenditures between HUD's Disaster Recovery Grant Reporting system (system) and the County's financial management system, (2) strengthen controls to ensure that all Program activities are properly reported in HUD's system and their financial management system on a timely basis, and (3) post its Program quarterly performance reports on its Web site in a timely manner.

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 our review results with County and HUD officials during the audit. We provided a copy of the draft report to County officials on March 4, 2010, for their comments and discussed the report with the officials at the exit conference on March 16, 2010. The County provided written comments on March 15, 2010, and generally agreed with our finding.

The complete text of the County's response, along with our evaluation of the response, can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVE

The Neighborhood Stabilization Program (Program) was authorized under Title III of the Housing and Economic Recovery Act of 2008 (HERA) and was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. The goal of the Program is to purchase and redevelop foreclosed-upon and abandoned homes and residential properties. The funding is provided through the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant program. HUD allocated \$3.92 billion on a formula basis to States, territories, and local governments.

On February 27, 2009, HUD awarded Broward County (County) more than \$17.7 million in Program funds. The County's Environmental Protection and Growth Management Department was created in 2008 when the County merged its urban redevelopment and planning functions with those of environmental protection, emergency management, and consumer protection. Within this department, the Housing Finance and Community Development Division is responsible for administering the program. The primary purpose of the division is to provide affordable housing to persons and families of low, moderate, or middle income and provide capital for investment in such housing.

The County plans to use Program funds to acquire and rehabilitate single-family and multifamily units and provide downpayment assistance on foreclosed-upon properties. The County must have all Program funds obligated by August 27, 2010. As of December 31, 2009, the HUD Disaster Recovery Grant Reporting system (system) reported that the County had obligated more than \$2.1 million in Program funds. Approximately 56 percent of the time has elapsed, yet the County has only obligated about 12 percent of the funds. The County has developed a plan to obligate all funds by the deadline and has submitted it to HUD.

The County had obligated and expended more than \$1.5 million in Program funds as of September 30, 2009.

Our audit objective was to determine whether the County had the necessary controls to administer its Program in accordance with HERA. Specifically, we evaluated whether the County had adequate (1) management controls to ensure that activities met Program objectives and (2) financial controls to ensure that obligations were timely and valid and expenditures were allowable and properly reported.

RESULTS OF AUDIT

Finding 1: The County’s Controls Over Its Program Had Weaknesses

The County did not always comply with Program requirements. Specifically, it did not accurately report Program financial information in HUD’s system and incorrectly posted Program expenditures to the wrong fiscal year in its financial management system. In addition, it did not post its first and second quarterly performance reports to its Web site in a timely manner. A concern was also noted regarding the County not ensuring that the voluntary acquisition notice is formally sent by certified or registered first class mail before an acquisition. These conditions occurred because the County (1) had inadequate controls to ensure that administration costs were properly reported and Program costs were appropriately recorded in its financial management system and (2) was not aware that it had to post its performance reports on its Web site. As a result, HUD has no assurance of the County’s actual financial progress of its Program, the County overstated its obligation and expenditures in its financial management system, and its citizens were not informed regarding the progress of Program funds in a timely manner. Further, the owners of the property were not formally notified that the acquisition was voluntarily.

Administration Costs Not Accurately Reported to HUD

The County did not accurately report Program financial information to HUD. As of September 30, 2009, it had reported to HUD approximately \$1.5 million in total obligations and \$1.5 million in expenditures for Program and administration costs. However, the County’s financial management system showed more than \$1.6 million in obligations and expenditures. Regulations at 24 CFR (Code of Federal Regulations) 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 obligated and expended amounts in the County’s financial management system exceeded the amounts reported to HUD by \$111,941 and \$107,859, respectively, as shown in the table below.

| Activity # | Obligations | | | Expenditures | | |
|--------------|---------------|-------------|------------|---------------|-------------|------------|
| | County system | HUD system | Difference | County system | HUD system | Difference |
| 001 | \$ 584,769 | \$ 488,214 | \$ 96,555 | \$ 584,769 | \$ 488,214 | \$ 96,555 |
| 004 | \$1,002,183 | \$1,002,183 | | \$1,002,183 | \$1,002,183 | |
| 006 | \$ 50,506 | \$ 35,120 | \$ 15,386 | \$ 50,506 | \$ 39,202 | \$ 11,304 |
| Total | \$1,637,458 | \$1,525,517 | \$ 111,941 | \$1,637,458 | \$1,529,599 | \$ 107,859 |

For administration costs (activity 006), the difference of \$15,386 in obligations and \$11,304 in expenditures occurred because the County had inadequate controls to ensure that administration costs were properly reported. Specifically, the County did not reconcile administration costs between its system and what was reported to HUD.

The County reported to HUD total administration expenditures in excess of obligations by \$4,082 (\$39,202 - \$35,120). It was unable to provide a clear explanation of the difference. One County employee indicated that the amounts were based on the County's financial management system, while another employee stated that it may have been based on preliminary estimates. Ultimately, staff was unsure how the amounts reported were derived.

Although the County reported inaccurate expenditures of \$39,202 and obligations of \$35,120, it stated that the actual amount that should have been reported to HUD for total obligations and expenditures was \$50,506. As a result, HUD has no assurance of the County's actual financial progress of its Program. By reconciling financial information, the County can ensure that accurate information will be reported.

Program Costs Not Accurately Recorded in Its Financial Management System

The County incorrectly recorded in its financial management system \$96,555 in acquisition costs for a single-family acquisition (activity 001) in fiscal year 2009 rather than posting it in fiscal year 2010. Regulations at 24 CFR 85.20 (b)(3) require that effective control and accountability be maintained for all grant and subgrant cash, real and personal property, and other assets. The \$96,555 expenditure was associated with a property acquisition located in Lauderdale Lakes, FL. The County did not authorize this acquisition until October 1, 2009. Its fiscal year ended on September 30, 2009. According to the County's procedures, upon approval of the work authorization, the vendor may proceed to execute documentation and incur costs to carry out the acquisition. Therefore, this expenditure pertained to fiscal year 2010 acquisition costs. The County admitted that it mistakenly posted the \$96,555 in acquisition costs to the wrong period; however, the amount reported in HUD's system was accurate. As a result, the County overstated its Program acquisition obligation and expenditures in its financial management system.

Financial Information Not Posted on Its Web Site in a Timely Manner

The County did not post its Program quarterly performance reports on its Web site in a timely manner. Federal Register Docket no. FR-5255-N-01, section O, requires that the quarterly reports be submitted using HUD's Web-based system and, at the time of submission, be posted prominently on the grantee's official Web site. The County had not posted its first and second quarterly performance reports on its Web site. This error occurred because the County was unaware of this requirement. As a result, citizens were not informed in a timely manner regarding the progress of Program funds. After we informed the County of the requirement, it posted its quarterly reports on its Web site.

Formal Written Notice Not Provided to Owner

The Uniform Relocation Act requires that before acquisition of any property, the Agency provide written notice to the owner that the terms of the acquisition will comply with voluntary acquisition provisions.¹ The County sent this notice for the acquisition of two multifamily properties after the properties were purchased. The County said this occurred because at the time of this acquisition the County had little to no guidance on how the Uniform Relocation Act would apply under the Program. However, prior to these acquisitions, HUD explained in its website that grantees must follow the regular Uniform Relocation Act voluntary acquisition requirements² and provided a link to the Uniform Relocation Act sample guide form. The County provided us with e-mails to and from the owner showing the elements needed to meet the voluntary acquisition requirements. Although the County did in effect meet the requirements, the Uniform Relocation Act requires the voluntary acquisition notice to be formally sent by certified or registered first class mail before the acquisition. As a result, the owners of the property were not formally notified that the acquisition was voluntarily. Therefore, the County must provide the applicable former owners with a right to withdraw notice, which clarifies that the acquisition is voluntary in nature.³

¹ 49 CFR 24.101(b)(1)(iii) and (iv) of the Uniform Relocation Act require that the agency notify the owner of the property in writing (iii) that it will not acquire the property if negotiations fail to result in an amicable agreement and (iv) what it believes to be the market value of the property.

² 49 CFR 24.5 requires that this notice be personally served or sent by certified or registered first class mail with return receipt requested and documented in agency files.

³ HUD Handbook 1378, CHG-8, paragraph 5-3(H), Noncompliance with Voluntary Acquisition Requirements.

Conclusion

Despite having adequate management and financial controls to ensure that activities met Program objectives, obligations were timely and valid, and expenditures were allowable; the County had inadequate financial controls and was not aware that it had to post its performance reports on its Web site. In addition, the County was unaware that it had to formally send the voluntary acquisition notice by certified or registered first class mail before an acquisition. As a result, HUD has no assurance of the County's actual financial progress of its Program, the County overstated its obligation and expenditures in its financial management system, and its citizens were not informed regarding the progress of Program funds in a timely manner. In addition, the owners of the property were not formally notified that the acquisition was voluntary.

Recommendations

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

- 1A. Establish controls to ensure that Program obligations and expenditures for administration costs are reconciled in a timely manner between HUD's system and the County's financial management system.
- 1B. Strengthen controls to ensure that all Program activities are properly reported in HUD's system and its financial management system on a timely basis.
- 1C. Ensure that its Program quarterly performance reports are posted on its Web site in a timely manner.
- 1D. Provide the required right to withdraw notice documentation to the owners for the multifamily property acquisition.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether the County had the necessary controls to administer its Program in accordance with HERA. Specifically, we reviewed whether the County had adequate (1) financial controls to ensure that obligations were timely and valid and expenditures were allowable and properly reported and (2) management controls to ensure that activities met Program objectives.

To accomplish the audit objective, we

- Reviewed and obtained an understanding of relevant HERA legislation, Federal Register and Code of Federal Regulations requirements, and other HUD regulations;
- Reviewed the County's Program substantial amendment to the 2008 action plan and the special conditions placed on the County by HUD;
- Reviewed relevant County policies and procedures;
- Interviewed HUD and County officials;
- Reviewed County financial records;
- Reviewed County acquisition files and records for two activities;
- Reviewed reports from HUD's system; and
- Reviewed agreements with contracted developers.

The County's Program substantial amendment to its 2008 action plan indicated that the County planned to use Program funds for five activities. We selected acquisition of single-family and multifamily properties for rental activities for review because these two activities had progressed further than the other activities. The single-family activity included purchasing foreclosed-upon or abandoned single-family properties for sale to income-eligible households. The multifamily properties for rental activity involved acquiring foreclosed-upon or abandoned multifamily properties to rent to income-eligible persons.

As of September 30, 2009, the County had obligated and expended nearly \$1.5 million for the acquisition of single-family and multifamily rental properties. Based on their large dollar amounts, we reviewed the acquisition of three properties with obligations and expenditures totaling more than \$1.1 million (or 78 percent of total Program obligations and expenditures). For financial controls, we reviewed County records to determine whether Program obligations and expenditures were allowable and adequate supporting documentation was maintained.

At the time of our review, the County was in the process of rehabilitating the acquired properties. Thus, it had not achieved the Program objective to house income-eligible families because the

rehabilitation was incomplete. However, based on our limited review of existing policies and procedures, interviewing County staff, and examining the contracts between the County and property developer, we determined that the County had adequate management controls to ensure that Program activities would meet program objectives. The results of our review apply only to the items selected and cannot be projected to the universe or population.

We also assessed the reliability of computer-processed data reported in HUD's system. To assess the reliability of obligation and expenditure amounts reported in the system, we interviewed County officials about data, reviewed existing documentation related to the data source, and traced data to the County's financial management system for accuracy and completeness. We found that as of September 30, 2009, obligations and expenditures recorded in the County's financial management system exceeded the reported amount in HUD's system by \$111,941 and \$107,859, respectively. The discrepancy was due to the County's incorrectly recording Program costs in its financial management system. However, the correct amounts in Program acquisition costs were reported to HUD. In addition, the County incorrectly reported administrative costs to HUD because it had inadequate controls to ensure that administration costs were properly reported.

Considering the results of our review, we relied on the obligation and expenditure amounts reported for the Program in HUD's system. However, we determined that administration costs reported in the system were unreliable. Therefore, we recommend that the County ensure that all Program activities are properly reported in the system.

Our review generally covered the period March through September 2009 and was extended as necessary during the audit. Our review was conducted from October 2009 through January 2010 at the County's Housing Finance and Community Development Division located at 110 Northeast 3rd Street, Fort Lauderdale, FL.

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 finding 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 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 objective:

- 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 item is a significant weakness:

- The County's controls over its Program had weaknesses (see finding 1).

APPENDIXES

AUDITEE COMMENTS AND OIG'S EVALUATION

APPENDIX A

Ref to OIG Evaluation

Auditee Comments



Environmental Protection and Growth Management Department
HOUSING FINANCE AND COMMUNITY DEVELOPMENT DIVISION
110 NE 3rd Street, 3rd Floor • Fort Lauderdale, Florida 33301 • 954-765-5311 • FAX 954-765-4686

March 12, 2010

Mr. James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Mr. McKay:

Subject: Response to Draft Audit Report of Broward County's NSP Program

This correspondence is Broward County's response to your March 4, 2010 Draft Audit of the NSP Program. You stated in your report to Maria R. Ortiz, Director of CPD, Miami Field Office, that the County had "(1) adequate management controls to ensure that activities met Program Objectives and (2) adequate financial controls to ensure that obligations were timely and valid and expenditures were allowable." We agree with these statements and your finding indicates only a minor weakness in our financial reporting to HUD. We have taken corrective actions in regard to these items.

Finding: The County's Controls Over Its Program Had Weaknesses

1. Administration Costs Not Accurately Reported to HUD

County's Response:

The data from the County's Financial System (Advantage) used in reporting to HUD was the pre-closing data for September 30, 2009, end of the fiscal year. This was because the County closed its fiscal year 2009 late in October, and staff did not want to submit a late report which was due to HUD by end of October. When the fiscal year 2009 was officially closed in late October, an additional \$11,304 of administrative costs including salaries and fringes benefits were journal entered into the old fiscal year as the last pay period ended October 3, 2009, straddling both fiscal years. Since this is a multiyear grant, the year to date amount reflects all charges since the inception of the NSP program. Charges not reported in one quarter are reported in and drawn down from HUD the next quarter. Staff preparing the NSP

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Comment 1

quarterly report has been advised to use data for the report after the official closing of the quarter. Division fiscal staff (Accountant II) will review the reports and reconcile with the financial information in the County's Accounting System to ensure accuracy of reports going forward.

2. Program Costs not Accurately Recorded in County's Financial management System

County's Response:

County does not agree that this should be a finding or a concern. The billing for \$96,555 in costs for acquisition of a single -family house in Lauderdale Lakes, FL was dated September 30, 2009 (old fiscal year) but payment issued on October 6, 2009 (new fiscal year). While the County's Accounting System listed it as a FY 2009 charge, the closing activity for the property did not occur until October 6, 2009. As such, the NSP staff preparing the quarterly report did not list it as an activity for the quarter ending September 30, 2009 but for the quarter ending December 31, 2009 when the closing activity occurred. The expenditure also was correctly reported and the funds drawn down in the quarter that the activity occurred. So the report to HUD was accurate. These funds were advanced by the County, as we operate on a reimbursement basis, and were not drawn down from HUD until October 19, 2009, in the quarter it was reported.

3. Financial Information Not Posted on County's Web Site in a Timely Manner

County's Response:

County was unaware of the requirement to post its quarterly NSP reports on its website. All quarterly NSP reports are now posted on the website and this will be done as soon as the report is completed and submitted to HUD going forward.

4. Formal Written Notice Not Provided to Owner

County's Response.

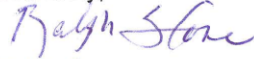
The County acquired the property in question in July, 2009, which was several months before HUD issued its guidance on URA as it applies to NSP in September 2009. The County was aware that URA would apply to NSP and attempted to address the URA provisions through e-mails with the seller of the REO property. In the absence of HUD guidance, the County felt that electronic record of communication would comply with URA requirements. After learning that the OIG auditors did not consider e-mail communications as satisfactory, the County issued a formal voluntary acquisition notice using the NSP guide form issued by HUD and obtained delivery confirmation. The County informed all NSP vendors that the use of the URA notices

is required on all NSP transactions. This was done on September 1, 2009 which was prior to the start of the OIG audit.

Once again, as you stated in your report, the County had "(1) adequate management controls to ensure that activities met Program Objectives and (2) adequate financial controls to ensure that obligations were timely and valid and expenditures were allowable." We agree with these statements that your finding indicates only a minor weakness in our financial reporting to HUD and we have taken corrective actions.

We appreciate your technical assistance and recommendations.

Sincerely,



Ralph Stone
Director

CC:

Kilah White, Assistant Regional Inspector General for Audit
Maria Ortiz, Director of Community Planning and Development, Miami Field Office
Susanne Fejes, Assistant Director, Housing Finance and Community Development Division
Krish Lalji, Fiscal and Compliance Manager, HFCDD

OIG Evaluation of Auditee Comments

Comment 1 The County did not agree that this issue should be a finding or concern. The billing for \$96,555 in costs for the acquisition of a single-family property was dated September 30, 2009. While the County's financial management system listed it as a fiscal year 2009 charge, the closing activity for the property did not occur until October 6, 2009. The expenditure was correctly reported to HUD and the funds drawn down in the quarter the activity occurred.

We contend the County incorrectly recorded \$96,555 for a single-family acquisition expense incurred in fiscal year 2010 rather than in 2009 in its financial management system. According to the County's procedures, the County does not incur costs until it authorizes the work authorization. The work authorization was authorized on October 1, 2010, which pertains to fiscal year 2010. We acknowledge that the County reported accurate information to HUD as of September 30, 2009; however, it needs to ensure the information contained in its financial management system is accurate.