



U.S. Department of Housing and Urban Development  
Region 4, Office of Inspector General  
Office of Audit, Box 42  
Richard B. Russell Federal Building  
75 Spring Street, SW, Room 330  
Atlanta, GA 30303-3388  
(404) 331-3369

**MEMORANDUM NO.  
2010-AT-1806**

September 24, 2010

**MEMORANDUM FOR:** Mary D. Presley, Director, HUD Atlanta Office of Community Planning and Development, 4AD

//signed//

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

**SUBJECT:** The City of Augusta, GA, Demonstrated the Capacity To Obligate Its NSP1 Funds

**INTRODUCTION**

We completed a review of the City of Augusta, GA's (City) Neighborhood Stabilization Program (NSP1). The review was conducted based on the City's overall poor progress in obligating its grant funds before the 18-month deadline and, in particular, obligating at least 25 percent of its grant funds for occupants with incomes below 50 percent of the median income in the locality (LH25 set-aside). As of June 3, 2010, the City had only committed 23.8 percent overall of its \$2.4 million NSP1 grant and only 0.9 percent of the grant toward LH25 set-aside activities.

Our objective was to determine whether the City had demonstrated the capacity to properly obligate all NSP1 grant funds and at least 25 percent of the grant toward the LH25 set-aside by the September 5, 2010, statutory deadline.

**METHODOLOGY AND SCOPE**

We reviewed 100 percent of the City's obligations toward its \$2.4 million NSP1 grant and performed detailed testing of the procurements for its obligations toward the LH25. To accomplish our objective, we

- Obtained an understanding of Housing and Economic Recovery Act (HERA) legislation, program guidance, and criteria;

- Reviewed the City’s relevant controls including applicable policies and procedures;
- Performed site inspections of the NSP1 project sites,
- Interviewed U.S. Department of Housing and Urban Development (HUD) and City officials;
- Reviewed the City’s files and records including its NSP1 grant agreement with HUD, board minutes, annual independent audits, financial records, procurement records, contracts, and site development plans; and
- Analyzed data from HUD’s Disaster Recovery Grant Reporting (DRGR) system and the corresponding reporting to the public by the City on its Web site.

Our review generally covered the period March 1 through May 31, 2010, and we extended the period as needed to accomplish our objective. We performed onsite work from June through July 2010 at the City’s office located at 925 Laney Walker Boulevard in Augusta, GA.

### **BACKGROUND**

The City’s government was created by legislative act in the State of Georgia from the unification of two governments, the City of Augusta and Richmond County. The unified government combined all functions and began financial operations on January 1, 1996. The City is governed by a full-time mayor, with a term of 4 years, and a 10-member commission, serving on a part-time basis and elected to staggered terms of 4 years.

The City’s Housing and Community Development department was responsible for administering the NSP1 grant and several other HUD programs including the Community Development Block Grant, HOME Investment Partnerships Program, Emergency Shelter Grant, and the Economic Development Initiative. The mission of the Augusta Housing and Community Development department is to create positive change by promoting self-sufficiency through partnership in economic development, quality housing, and neighborhood reinvestment.

On March 5, 2009, HUD awarded the City an NSP1 grant of more than \$2.4 million. NSP1 grants were provided through HERA funding to States and units of general local government for the redevelopment of abandoned and foreclosed-upon homes and residential properties. Section 2301(c)(1) of HERA requires the grantee to use all of its NSP1 funds not later than 18 months after the receipt of the funds or September 5, 2010. Section 2301(f)(3)(A)(ii) further requires that not less than 25 percent of the NSP1 funds be used for the purchase and redevelopment of abandoned or foreclosed-upon homes or residential properties that will be used to house individuals or families with incomes that do not exceed 50 percent of area median income, which is the LH25 set-aside requirement. NSP Policy Alert, Volume 3, dated April 2010, defines “use” as the obligation of funds for approved specific activities that must be linked to a specific address and/or household.

## **RESULTS OF REVIEW**

The City demonstrated the capacity to properly obligate its entire \$2.4 million NSP1 grant by the September 5, 2010, statutory deadline. This capacity was evidenced by the City's substantial progress in committing its grant funds during our review. Specifically,

- As of August 2, 2010, the City had obligated 92 percent of its NSP1 grant funds and was in the process of obtaining commitments for the remaining 8 percent.
- The City had fulfilled the LH25 set-aside requirement by obligating more than 25 percent of its funds toward low-income occupants.
- Detailed testing of the LH25 set-aside obligations revealed that the obligations were incurred and entered into for eligible uses and could be linked to a specific address or household as required by HUD's NSP Policy Alert, Volume 3, April 2010.
- Site inspections of the LH25 set-aside project verified that the activity existed and the funds were obligated to be used as intended for the project. The site corresponded with the terms of each contract and the site development drawings and plans for the development.
- The City met reporting requirements for NSP1 grants. HUD Guidance on the Neighborhood Stabilization Program - Federal Register, Volume 73, No. 194, dated October 6, 2008, requires each grantee to report on its NSP funds to HUD using the online DRGR system, which uses a streamlined, Internet-based format. The City met this requirement and the Federal Register requirement that grantees post the NSP report on a Web site for its citizens when it submits the report to HUD.

During the review, we identified two concerns regarding internal controls and entering obligations before contracts were fully executed.

- The City did not have internal controls in place to perform continuous and routine monitoring of its obligation process to ensure that its obligations were processed as intended and were valid. We discussed this matter with the City during the review, and the City agreed to develop monitoring procedures.
- The City entered its NSP1 obligations into the DRGR database in June 2010 for its LH25 set-aside activities. At that time, the obligations were not valid because the contracts for those obligations had not been signed by all parties. However, the City obtained the required signatures and fully executed the contracts in August 2010, ahead of the September 5, 2010, deadline. We discussed this matter with the City, and it agreed that its obligations were not valid until the contracts were fully signed and executed by all parties.

Our review of the City's actions taken or planned regarding the issues indicated its willingness to make necessary improvements.

## **RECOMMENDATIONS**

Based on the results of the review, this memorandum contains no recommendations.

## **AUDITEE RESPONSE**

We provided a draft memorandum to the City on September 3, 2010. We explained that the City's comments were not necessary, but if it chose to provide comments, we requested that they be provided within 10 days. The City generally agreed with the memorandum and declined an exit conference and had no comments since the report has no findings or recommendations,