Issue Date June 16, 2011
Audit Report Number 2011-FW-1012

TO: Jerry Hyden
Acting Director, Community Planning and Development Division, 6ID

Craig T. Clemmensen
Director, Departmental Enforcement Center, CACB

//signed//

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The City of Tulsa, OK, Mismanaged Its Recovery Act Funding

HIGHLIGHTS

What We Audited and Why

In accordance with our goal to review funds provided under the American Recovery and Reinvestment Act of 2009 (Recovery Act) and based on the U. S. Department of Housing and Urban Development's (HUD) concerns about the capacity of the City of Tulsa's (City) subrecipient, we audited the City's Community Development Block Grant Recovery (CDBG-R) program. Our objective was to determine whether the City complied with HUD's CDBG-R obligation, procurement, expenditure, and reporting requirements.

What We Found

The City poorly managed its Recovery Act activities by selecting a subrecipient that did not have the capacity to complete the project within the required time limit. Further, the City did not adequately monitor the subrecipient, did not comply with federal requirements, and did not practice good financial controls.

This condition occurred because the City did not ensure that a subrecipient had the capacity to complete an activity and lacked the required policies and procedures. As a result, it committed more than $3 million in federal funds for a project that it might not complete.

Further, the City disregarded procurement requirements, did not have policies or procedures regarding the disposal of hazardous waste, and did not implement sound controls over the grant. As a result, it could not comply with regulations or ensure that its contractors followed requirements

What We Recommend

We recommend that the Acting Director, Community Planning and Development Division, Oklahoma City, OK, require the City to select a subrecipient that has the capacity, both financially and administratively, to complete and operate the Shoppes on Peoria and to provide documentation by November 30, 2011. If the City cannot obtain a subrecipient that can complete the project, it should select another project that it can complete by September 30, 2012. Further, the City should support or repay more than $49,000 that it spent without a contract and improve its controls for its grants. Also, HUD should seek administrative sanctions against the Greenwood Community Development Corporation and its related entities to protect HUD and the City from future instances of noncompliance.

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

Auditee's Response

We provided a draft report to the City and HUD on May 26, 2011, and requested written comments by June 13, 2011. We held an exit conference with the City on June 2, 2011. The City provided written comments on June 10, 2011. It generally agreed with the report.

The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report. We did not include the attachment submitted with the response. The attachment is available for review upon request.

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BACKGROUND AND OBJECTIVE

The City of Tulsa (City) incorporated as a municipality on January 8, 1898. The City operates under a mayor-council form of government with the city council serving as the legislative and governing body. For the 2010 to 2011 program year, the City received almost $7 million in community planning and development funding from the U. S. Department of Housing and Urban Development (HUD) to provide support for low- and moderate-income households with community development needs. The City's Department of Grants Administration was responsible for administering these grants.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act) was enacted. The Recovery Act appropriated $1 billion for State and local governments to complete eligible activities under the Community Development Block Grant Recovery (CDBG-R) program. Due to the urgency, the Recovery Act required truncated deadlines for expending funds and established strict standards of accountability and transparency. Therefore, Recovery Act recipients must have demonstrated the capacity to administer funding quickly and provide timely and reliable program data.

On August 14, 2009, HUD authorized $989,720 in Recovery Act funding for the City[1] to carry out the CDBG-R program. The Recovery Act required that the City use its CDBG-R program funds to retain and create jobs, provide economic benefits, and promptly complete infrastructure improvements. The City aimed to meet this requirement by completing two projects, each using $445,374.[2]

Table 1: City of Tulsa CDBG-R-funded projects

Recipient	Project	Authorized funds
Greenwood Community Development Corporation (Corporation)	The Shoppes on Peoria (Shoppes)	$445,374
City of Tulsa – Working in Neighborhoods Department (WIN)	Neighborhood Revitalization Project	$445,374

- The City planned to construct a retail building, the Shoppes, in North Tulsa and create minority-owned businesses and 62 permanent jobs for low-income persons.[3]
- The City planned to reduce the number of blighted properties in three low- to moderate-income neighborhoods by conducting code enforcement, rehabilitation, and demolition activities. The City would complete this project under three existing memorandums of understanding with WIN.

The audit objective was to determine whether the City complied with HUD's CDBG-R obligation, procurement, expenditure, and reporting requirements.

1 For the purpose of this report, we did not differentiate between the City and its individual departments and subrecipients that carry out the programs.
2 The remaining $98,972 in CDBG-R funds was for administrative costs.
3 The City entered into a December 28, 2009 agreement with the Corporation that ended on January 31, 2011.

Finding: The City Mismanaged Its Recovery Act Funding

The City poorly managed its Recovery Act activities by selecting a subrecipient that did not have the capacity to complete the project within the required time limit. Further, it did not adequately monitor the subrecipient, did not comply with federal requirements, and did not practice valid financial controls. These conditions occurred because the City did not ensure that a subrecipient had the capacity to complete an activity and lacked the required policies and procedures. As a result, it committed more than $3 million in federal funds for a project that it might not complete.

The Corporation Lacked the Financial Capacity to Complete the Project

The City selected the Corporation as its subrecipient to construct the Shoppes. The City relied upon the Corporation to manage the construction and complete the Shoppes within the budget and according to federal requirements. However, the Corporation did not have the capacity to complete the Shoppes. Initially, the Corporation planned to fully fund the Shoppes with more than $3 million in Community Development Block Grant (CDBG) funds. It had no other source of funding in the event that it did not receive the CDBG funds that it anticipated.[4]

Table 2: Source of funds – City's original estimate

Source	Amount
CDBG entitlement funds	$1,452,107
CDBG Section 108 loan guarantee[5]	951,584
CDBG-R grant	445,374
CDBG land gift	270,000
Total CDBG funds[6]	**$3,119,065**

The Corporation could not fully fund the Shoppes. Specifically, HUD would not authorize a Section 108 loan guarantee for the project because the Corporation could not show that it had the capacity to complete the Shoppes[7] and repay the

[4] The Corporation entered into a grant agreement for the CDBG-R funds and a contract for the sale of land purchased with CDBG funds. The City allocated the other CDBG funds for this project.

[5] Section 108 is the loan guarantee provision of the CDBG program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. The City guarantees the Section 108 loan by pledging its CDBG funding.

[6] As of May 10, 2011, it had spent $237,358 CDBG-R funds on pre-construction services.

[7] The Corporation mismanaged the construction, which had not begun as of April 8, 2011.

loan from the Shoppes' income.[8] Further, it could not show that it could borrow funds needed to complete the project. As a result, the Corporation could not hire a bonded contractor.[9] The Corporation did not provide evidence that it could meet HUD requirements for a Section 108 loan and finance any shortfall.

Increasing its financial problems, the Corporation did not communicate clearly its plans and federal requirements to its architect. Specifically, the architect wrongly believed the construction budget to be $3.1 million and designed the building accordingly. However, the planned construction budget was $500,000 less at $2.6 million. As a result, the construction bids were higher than the budget. Therefore, the architect had to redesign the building. This effort not only delayed the project, but also will increase the construction cost. The Corporation should have communicated clearly its plans and budgets to the architect to avoid such unnecessary delays and costs.

The Corporation Did Not Originally Plan to Complete the Shoppes on Time

The Corporation initially did not plan to complete the Shoppes on time and did not have the funding in place to complete it. In its agreement with HUD, the City certified that it would select projects for which it could award contracts within 120 days from the date that HUD made the funds available to the City. Instead, the City entered into a subrecipient agreement with the Corporation to complete the Shoppes. HUD made funds available to the City on June 5, 2009. The City did not enter into an agreement with the Corporation until December 28, 2009. The Corporation needed to complete the Shoppes by September 30, 2012, to meet its grant requirements. As of March 17, 2011, there was no contract for the Shoppes' development.

The Corporation did not plan to complete the Shoppes by the federal deadline. On June 23, 2009,[10] the Corporation prepared a timeline showing that it would not complete the Shoppes until January 2013, four months after the deadline.[11] The City may not have known that the Corporation planned to complete the project after the deadline, as it did not have this timeline. The Corporation changed its timeline in July 2010 but had not met any of the target dates. For instance, according to the timeline, it should have started construction on September 20, 2010. However, as of June 2, 2011, there was no visible evidence that construction had started on the vacant land. As a result, it did not have a viable plan to complete the project by September 30, 2012.

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[8] The Corporation estimated that the Shoppes would have a negative cash flow during the first 5 years of operation.
[9] The contractor needed evidence that the Corporation could pay for the contract.
[10] Approximately 2 months before the City entered into its grant agreement with HUD.
[11] The timeline did not show when the Corporation planned to get businesses set up and ready to provide jobs.

The Corporation Poorly Procured Sewer Work

Due to a lack of internal control, the Corporation did not perform a cost analysis of the Shoppes' sewer work or have a written contract with the contractor. Originally, it used a competitive bidding process to select the lowest bidder at $34,865. After the bids, the engineer changed the specifications. Instead of putting the revised work scope out to bid or solicitation, the Corporation had the contractor resubmit its proposal. The proposal increased the cost to $49,089,[12] which was paid on January 27, 2010. The Corporation effectively sole-sourced the contract and did not know whether it paid a reasonable amount for the contract. Further, it did not have a written agreement with the contractor. As a result, it did not document the contractor's duties as required by City law[13] and federal regulations.[14] The City should determine whether the work was needed and the cost was reasonable.

The Corporation Lacked Financial Controls

The Corporation lacked financial controls that would allow it to manage its grants. As of April 22, 2011, the Corporation had not provided financial statements for the CDBG-R program. Federal regulations[15] require the Corporation to keep records that clearly identify the source and application of funds. Those records must contain data on unobligated balances, assets, revenues, and expenses. The president of the Corporation explained that the Corporation did not have a balance sheet and income statement because the building was not yet in service.[16] The Corporation should have been able to present the financials at any time. However, it was not able to present statements that showed cash on hand, accounts receivable, accounts payable, and income. Further, the Corporation commingled CDBG-R program funds. It deposited and expended CDBG-R program funds from a bank account used for other activities. The general ledger used for CDBG-R contained financial transactions of other projects and did not clearly describe the transactions. This condition occurred because the Corporation did not understand the importance of effective control over and responsibility for CDBG funds.

Additional evidence that the Corporation lacked financial controls was that it attempted to incorrectly charge $5,900 in payroll costs to the grant based on an undocumented procedure not approved by HUD.[17] The Corporation did not keep

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12 The increase in cost was 41 percent.
13 City's purchasing ordinance (title 6, chapter 4)
14 24 CFR (Code of Federal Regulations) 85.36(i)
15 24 CFR 84.21
16 The Corporation had capitalized all costs into a building account until the end of construction.
17 The Corporation applied the same method used by its apparent parent company, Greenwood Chamber of Commerce.

time sheets that clearly showed the time spent on each of its projects as required by HUD.[18] Instead, it used an estimated percentage of time to charge the costs. This condition occurred because the Corporation did not have policies and procedures for tracking and charging costs to federal programs.

The Corporation Did Not Submit the Required Recovery Act Reports to the City

The Corporation did not submit the required progress reports to the City. Its agreement with the City required it to submit monthly and quarterly reports. Further, the Corporation was required to provide records to the City until project completion to verify that it was constructing facilities according to Recovery Act guidelines. However, as of December 2010, the Corporation had only submitted to the City 2 of 20 required reports. Because of the Corporation's noncompliance, the City could not provide accurate reports to the Recovery.gov Web site as required.[19] For example, the City's December 31, 2009 quarterly Recovery.gov report showed that the City would not use Recovery Act funds to finance the sewer relocation. However, in January 2010, the City paid for the sewer relocation using Recovery Act funds. The City also reported that it expected construction to begin in January 2010.

The Corporation Exposed the City to Significant Potential Liability

The Corporation's actions could expose the City to significant potential liability. As shown in table 3, the City revised its estimates[20] to show that the Shoppes project would cost more than $3.7 million, of which at least $3.5 million would come from the City's CDBG funds. The City and Corporation did not explain why the amount had increased by $600,000.[21]

Additionally, the Corporation might default on its agreement with Tulsa Development Authority (Authority) for the sale of land used for the Shoppes' development if it cannot meet the conditions. The land contract would give the Corporation ownership of the land previously purchased with CDBG funds. According to the contract, the Authority would waive the $270,000 cost of the land when the Corporation completed the project. If the Corporation did not carry out urban renewal activities on the land, the agreement would not be enforceable.

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18 OMB (Office of Management and Budget) Circular A-122, attachment B, paragraph 8.m

19 Recovery Act, Title XII of Division A, Section 1512, required the City to submit quarterly reports showing a detailed list of all projects for which it had expended recovery funds, including an assessment of the completion status of the project.

20 As of April 5, 2011

21 Refer to Table 2 for the original estimate of $3.1 million.

Further, the Corporation would be in default of its agreement with the Authority if it did not provide evidence of adequate financing within 60 days after the Authority approved the final construction plans. There was no evidence that the Corporation had the funds to complete the construction. Further, the Corporation must complete construction within 24 months after the Authority has approved the construction plans. As of April 8, 2011, the Corporation had not started the development of the Shoppes.

Table 3: Source of funds –City's new estimate	
Source	Amount
CDBG entitlement funds	$1,452,107
CDBG Section 108 loan guarantee	1,146,600
CDBG-R grant	445,374
Proposed letter of credit secured by the Corporation's president (no evidence of securitization)	274,162
CDBG land gift	270,000
CDBG carryover funds from program year 2008	200,000
Total estimated costs	**$3,788,243**

Another concern for the City should be the Corporation's capacity to operate the Shoppes if it is completed. As previously mentioned, the City and Corporation did not anticipate having a positive cash flow for the first 5 years.

Based upon the Corporation's lack of capacity and progress on the Shoppes, the City should terminate its agreements with the Corporation[22] and attempt to find a subrecipient that can access funding and complete the project in a timely manner. The City should also ensure that it contracts with a capable entity to operate the Shoppes when completed. If the City cannot find a subrecipient capable of completing the Shoppes by the deadline and within budget, it should immediately reprogram the CDBG-R funds to a project that it can complete by September 30, 2012. By either locating another subrecipient that can complete the Shoppes or reprogramming the funds to another project, the City will put to better use approximately $2.3 million in CDBG funds.[23] Further, HUD should seek administrative sanctions against the Corporation and its related entities to protect HUD and the City from future instances of noncompliance and mismanagement of federal funds.

The City's WIN Department Did Not Follow Requirements for its Project

[22] Including the agreement related to the land transfer

[23] We computed the amount by adding CDBG-R funds ($445,374) with the CDBG land gift ($270,000) and CDBG funds allocated, both entitlement and carryover funds, ($1,452,107 and $200,000) for a total CDBG allocated amount of $2,367,481. We did not include the Section 108 loan guarantee as it was not approved and would not be reprogrammed. From the $2,367,481, we deducted questioned costs of $49,089 so as not to double count these funds for a total of $2,318,392.

WIN did not have policies and procedures for the proper disposal of hazardous waste. WIN's contracts for nuisance abatement required the contractor to comply with federal regulations and State and local laws and regulations. However, the contracts did not mention which specific requirements applied to the contractor's work. As a result, they did not specify what requirements the contractor needed to comply with when disposing of hazardous waste. While the contract did identify costs to dispose of tires, it did not contain costs for disposal of other hazardous waste. WIN did not keep records tracking the disposal of hazardous debris or unidentifiable waste. The City could not explain how the WIN department ensured that its contractors disposed of debris in accordance with applicable State and local requirements. The City should ensure that its contracts on abatement and demolition contain abatement requirements and costs for all hazardous materials.

Further, the City's WIN department did not obtain independent estimates for abatement and demolition work before receiving bids as required.[24] The WIN department had not obtained independent estimates for this work since 1984. However, it did properly bid the work, which would support the reasonableness of the price that it paid. Nonetheless, the City needs to have procedures to ensure it obtains independent estimates before receiving bids or proposals.

Conclusion

The City mismanaged its Recovery Act activities by selecting a subrecipient that did not have the capacity to complete the Shoppes within the required time limit. The Corporation did not have the funding or ability to complete the Shoppes. Further, the City did not adequately monitor its programs. It violated federal requirements and practiced questionable financial controls. This condition occurred because the City and its subrecipient either lacked adequate policies and procedures or did not have systems in place to ensure that they followed those policies and procedures. As a result, the City's ability to complete its Recovery Act project with this subrecipient is questionable.

Further, the City's WIN department did not have procedures in place for the disposal of hazardous wastes and compliance with procurement requirements.

[24] 24 CFR 85.36(f)1

Recommendations

We recommend that the Acting Director, Office of Community Planning and Development, Oklahoma City, OK, require the City to

1A. Terminate its agreements, including the transfer of the land, with the Corporation and either contract with a subrecipient that can complete the Shoppes or reprogram the funds to projects that it can complete within Recovery Act timeframes and according to Recovery Act requirements. By doing so, the City can put to better use approximately $2,318,400 in CDBG funds that it committed to this project. [25]

1B. Support or repay from non-federal funds $49,089 that the Corporation paid on an agreement without a formal written contract.

1C. Ensure that the Corporation does not incorrectly charge labor costs to the grant.

1D. Improve its process for selecting and monitoring subrecipients.

1E. Implement procedures to ensure that it complies with all relevant procurement requirements.

1F. Implement policies and procedures for independent estimates and proper disposal of hazardous waste, which would include steps to follow up on hazardous waste disposal and contract provisions that require contractors to comply with State and local laws and regulations.

We recommend that the Director of HUD's Departmental Enforcement Center

1G. Seek administrative sanctions against the Corporation and its related entities, including its current president, to protect HUD and the City from future instances of noncompliance.

[25] We computed the amount by adding CDBG-R funds ($445,374) with the CDBG land gift ($270,000) and CDBG funds allocated, both entitlement and carryover funds, ($1,452,107 and $200,000) for a total CDBG allocated amount of $2,367,481. We did not include the Section 108 loan guarantee as it was not approved and would not be reprogrammed. From the $2,367,481, we deducted the questioned costs of $49,089 so as not to double count these funds for a total of $2,318,392.

SCOPE AND METHODOLOGY

We conducted the audit at the City's grant department, the Corporation's office in Tulsa, OK, and our office in Oklahoma City, OK, from January 24 to April 22, 2011. The scope of the audit was the City's CDBG-R obligations, procurements, expenditures, program results, and reporting made between June 1, 2009, and January 15, 2011. We expanded the scope to February 16, 2011, for WIN activities. We reviewed the proposed source of funds for the Shoppes and the WIN timeline prepared in April 2011. The methodology included these procedures:

- Reviewed relevant laws, regulations, and HUD guidance.
- Reviewed Corporation audited financial statements, bank records, general ledger, invoices, and checks.
- Reviewed City and Corporation policies and procedures to carry out its activities.
- Reviewed grant agreements, memorandums of understanding, and contracts.
- Reviewed the City's board meeting minutes, dated March 13, 2008, and May 28, 2009.
- Reviewed the City's monitoring report of the Corporation, dated November 18, 2010.
- Interviewed HUD, City, and Corporation staff, contractors, engineers, and the architect.
- Reviewed and analyzed 100 percent of the Corporation's requests for funds for the period December 31, 2009, to February 28, 2011.[26]
- Reviewed and analyzed the City's and Corporation's project timelines and budgets.
- Conducted site visits and photographed the WIN abatement and demolition properties in North Tulsa and the planned Shoppes' tract.

We reviewed a sample of the City's abatement and demolition cases. As of February 16, 2011, WIN had completed 159 abatements and 3 demolitions for a total of 162 cases. We selected a sample of 11 cases, which included 8 abatements and all 3 demolitions. The eight abatements consisted of the five most recently completed projects and three projects with the highest invoice amounts. The sample totaled $18,427 and was 27 percent of the $67,461 in expenditures. We did not project the results of procedures applied to items selected under this method to the population that was not tested.

For administrative expenditures, we compared drawdowns reported in HUD's Integrated Disbursement and Information System (System)[27] to the City's general ledger, which agreed. We concluded the City's System data was reliable as it related to our audit objective and procedures. We reviewed the City's drawdowns as reported in the System for costs that occurred through January 15, 2011. We identified the drawdowns that had the highest dollar amounts, which we considered high risk. We selected the four largest drawdowns totaling $9,260, which were 80 percent of the $11,510 in total drawdowns for the audit period. We did not project the results of procedures applied to items selected under this method to the population that was not tested.

26 The expenditures reported on the requests for funds occurred within the audit scope period.
27 The drawdown and reporting system used by HUD for its community planning and development programs.

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 a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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:

- Policies and procedures that the City's management implemented to reasonably ensure that its program met its objectives.
- Procurement policies and procedures established and followed by the City including monitoring subrecipients and contractors for compliance with laws and regulations.
- Policies and procedures that the City's management implemented to reasonably ensure that its resource use was consistent with laws and regulations and that its resources were safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

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

- The City did not have controls in place to ensure the completion of its project or that it would meet program objectives (finding).
- The City lacked controls to ensure that it followed its monitoring policies by ensuring that its subrecipient met Recovery Act requirements (finding).
- The City did not have a system in place to ensure that it followed federal and City requirements (finding).

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A		$2,318,392
1B	$49,089	
Totals	**$49,089**	**$2,318,392**

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.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. If HUD implements the recommendations, there will be $2,318,392 in funds and resources available to the City to provide support for low- and moderate-income households with community development needs. We computed the amount by adding CDBG-R funds ($445,374) with the CDBG land gift ($270,000) and CDBG funds allocated, both entitlement and carryover funds, ($1,452,107 and $200,000) for a total CDBG allocated amount of $2,367,481. We did not include the Section 108 loan guarantee as it was not approved and would not be reprogrammed. From the $2,367,481, we deducted the questioned costs of $49,089 so as not to double count these funds for a total of $2,318,392.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

City of Tulsa
A New Kind of Energy.

DEPARTMENT OF
GRANTS ADMINISTRATION

June 10, 2011

Gerald R. Kirkland
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region VI
819 Taylor Street, Suite 13A09
Fort Worth, Texas 76102

Dear Mr. Kirkland:

Please find attached the City of Tulsa's response to HUD's Office of Inspector General, Region VI draft audit report. We are in process of developing procedures and taking corrective action to address each of the recommendations.

We appreciate the constructive approach and thoroughness the OIG staff demonstrated in their review. Their recommendations will make our CDBG-R program stronger.

Should you have any questions or require additional information, please contact me at (918) 596-7849.

Sincerely,

Cathy Criswell

Cathy Criswell, Interim Director
Department of Grants Administration
City of Tulsa

Enclosures

cc: William Nixon, Assistant Regional Inspector General
Jerry Hyden, Director, HUD OKC
Hillard Berry, CPD Representative, HUD OKC
Jim Twombly, Director of Administration, City of Tulsa

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Email: GrantsAdmin@cityoftulsa.org
www.cityoftulsa.org

City of Tulsa's Response to OIG Findings and Recommendations

We agree with the following findings:

- The Corporation Lacked the Financial Capacity To Complete the Project
- The Corporation Did Not Originally Plan to Complete the Shoppes on Time
- The Corporation Poorly Procured Sewer Work
- The Corporation Lacked Financial Controls
- The Corporation Did Not Submit the Required Recovery Act Reports to the City
- The Corporation Exposed the City to Significant Potential Liability

We have provided additional documentation in Attachment A for the following finding:

- The City's WIN Department Did Not Follow Requirements for its Project

Responses to recommendations:

Comment 1 **1 A (summarized) - Terminate agreement with Corporation and either contract with a subrecipient that can complete the project or reprogram the funds.**

The contract with the Corporation has expired and will not be renewed. We agree with the OIG's recommendation to either contract with a subrecipient that can complete the project or reprogram the funds. The City Council will discuss options during a meeting scheduled for June 16, 2011. Due diligence will be performed on alternative subrecipients and/or projects selected by the City Council.

Comment 2 **1 B - Support or repay from non-Federal funds $49,089 that the Corporation paid on an agreement without a formal written contract.**

The City of Tulsa will repay $49,089 no later than September 30, 2011.

1C - Ensure that the Corporation does not incorrectly charge labor costs to the grant.

The contract with the Corporation has expired. No payments were made for Corporation's salaries and no payments will be made.

Comment 3 **1D - Support or repay from non-Federal funds $42,221 that it paid for demolition and nuisance abatement without an independent estimate.**

We request the Acting Director, Office of Community Planning and Development, Oklahoma City, OK consider the information in Attachment A in making a determination of adequate support or repayment.

Comment 4 **1 E -Improve its process for selecting and monitoring subrecipients.**

To improve the process for selecting sub recipients, we will ensure the City Council is informed of all subrecipient capacity and performance concerns during its selection process. We will request the City Council consider additional process improvements during a discussion scheduled for June 16, 2011.

To improve the process for monitoring subrecipients, technical assistance to subrecipients, especially any new or high risk agencies, will begin soon after subrecipients have been identified through the selection process. This process change will help to correct potential noncompliance issues before funds have been expended. Policies and procedures will be updated to reflect these changes no later than September 30, 2011.

Comment 2 **1F - Implement procedures to ensure it complies with all relevant procurement requirements.**

Contracts with subrecipients will be changed to require preapproval of their procurement processes before they take any procurement action. Additional technical assistance with procurement will be provided to subrecipients. Policies and procedures will be updated to reflect these changes no later than September 30, 2011.

Comment 2 **1G (summarized) - Implement policies and procedures for independent estimates and proper disposal of hazardous waste.**

Policies and procedures revisions will be completed no later than September 30, 2011.

OIG Evaluation of Auditee Comments

Comment 1 The City concurred with the finding. However, the City's response did not address the land contract between the Corporation and Tulsa Development Authority if the City continues with the Shoppes. The City will need to address the land as it moves forward on the Shoppes or reprograms the land.

To protect HUD and the City from future instances of noncompliance, we added a recommendation for HUD to seek administrative sanctions against the Corporation and its related entities.

Comment 2 We appreciate the City's actions toward addressing the recommendation.

Comment 3 We revised the finding based upon the City's comments including removing the recommendation requiring the City to support or repay funds spent on the abatement and demolition work.

Comment 4 The City concurred with the finding. We commend the City for making plans to revise its policies and procedures for selecting and monitoring subrecipients. The City plans to inform city council concerning capacity and performance concerns during its subrecipient selection process. This action would be a good start to selecting capable subrecipients. However, informing city council alone will not improve the selection process. The City will need to take further action to ensure that it selects qualified subrecipients.