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Audit Report Number	2007-BO-1007
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TO: Robert C. Paquin, Director, Community of Planning and Development, 1AD

*John A. Dvorak*  
FROM: John A. Dvorak, Regional Inspector General for Audit, 1AGA

SUBJECT: The City of Fall River, MA, Generally Administered Its Block Grant and HOME Programs in Accordance with HUD Requirements

## HIGHLIGHTS

### What We Audited and Why

We reviewed the Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) programs administered by the Community Development Agency, City of Fall River, Massachusetts (City) as part of our annual audit plan.

Our audit objective was to determine whether the City administered its CDBG and HOME programs in compliance with U. S. Department of Housing and Urban Development (HUD) requirements. We focused on whether the City: (1) had adequate internal controls over its management process, accounting, and data processing; (2) used CDBG funds for national objectives; (3) used CDBG and HOME program funds for eligible activities and were adequately supported; and (4) properly accounted for CDBG and HOME program income.

### What We Found

The City generally administered its CDBG and HOME programs in compliance with HUD requirements. The City's (1) internal controls over its management process, accounting, and data processing were adequate, (2) CDBG funds were

used for national objectives, (3) CDBG and HOME program funds were used for eligible activities and were adequately supported, and (4) CDBG and HOME program income was properly accounted for. Thus, the report contains no formal recommendations and no further action is necessary. However, the City has more than \$3 million in unobligated HOME funds and could benefit by developing partnerships with additional Community Housing Development Organizations (CHDOs) to use these funds to develop additional housing for low to moderate income families.

### **Auditee's Response**

We provided City officials with a draft audit report on August 10, 2007, and requested a response by August 21, 2007. We held an exit conference with City officials on August 15, 2007, to discuss the draft report, and we received their written comments on August 20, 2007. The auditee's response can be found in appendix A of this report.

The City agreed with the finding in the report, and indicated that they are actively working to expand it's use of the HOME funds and help more low and moderate income families.

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## BACKGROUND AND OBJECTIVES

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Congress designed the Community Development Block Grant (CDBG) program in 1974 for the development of viable urban communities by providing decent housing, supporting a suitable living environment, and expanding economic opportunities principally for persons of low and moderate income. Congress designed the HOME Investment Partnerships (HOME) program in 1990 for: the expansion of the supply of affordable housing; the strengthening of the abilities of local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; the provision of both financial and technical assistance to cities; and the strengthening of partnerships among all levels of government and the private sector in the production and operation of affordable housing. The cities must set aside at least 15 percent of its annual HOME allocation for Community Housing Development Organizations (CHDOs). These non-profit organizations utilize this funding to create housing opportunities for low and moderate-income persons. Historically, the City of Fall River utilized this funding source to rehabilitate current housing stock and provide opportunity for first time homebuyers.

The City receives between \$4.5 and \$5 million annually in Community Planning and Development funding. In fiscal years 2004 to 2006, the City spent more than \$9 million in CDBG funds and more than \$3 million in HOME funds, as follows:

<i>Year</i>	<i>CDBG</i>	<i>HOME</i>
<b>2004</b>	\$3,771,277	\$ 659,725
<b>2005</b>	\$3,429,009	\$1,319,828
<b>2006</b>	\$2,789,805	\$1,337,589
<b>Totals</b>	\$9,990,091	\$3,317,142

The City used the CDBG funding to assist public service entities; upgrade public facilities for roads, water systems and fire equipment; renovate private homes for low income homeowners; and provide economic development loans to local businesses. The City used the HOME funding to purchase and renovate multi-family homes for low income tenants.

Our audit objective was to determine whether the Agency complied with HUD regulations in the administration of its Community Development Block Grant and HOME programs. Specifically, we determined whether the City (1) had adequate internal controls over its management process, accounting, and data processing, (2) used CDBG funds for national objectives, (3) used CDBG and HOME funds for eligible activities and were adequately supported, and (4) properly accounted for CDBG and HOME program income.

## RESULTS OF AUDIT

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### Finding 1: The CDBG and HOME Programs were Generally Administered in Accordance with HUD Requirements

The City generally administered its CDBG and HOME programs in accordance with HUD requirements. Specifically, (1) internal controls and the financial management system were adequate; (2) the City ensured that CDBG activities met at least one of the national objectives; (3) expenditures of CDBG and HOME program funds were eligible and adequately supported; and (4) program income for CDBG and HOME programs was properly accounted for. However, the City could benefit by developing additional partnerships with Community Housing Development Organizations (CHDOs) to use its HOME funds to develop more housing under its rental housing rehabilitation program.

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#### City's Internal Controls Were Adequate

The City's internal controls over its management process, accounting, and data processing were adequate. The testing conducted of internal control procedures related to CDBG activities, HOME loans, procurement and administrative expenditures found that the controls were functioning as designed. Also, the City's financial management system properly accounted for the transactions tested, and its accounting policies and procedures reasonably assured that program implementation for both programs was consistent with HUD requirements.

#### CDBG Activities Met National Objectives

CDBG-funded activities totaling \$1,297,252 were reviewed for the (1) infrastructure improvement program, (2) community development recreation program, and (3) fire equipment and facilities upgrading to determine whether these three activities met the national objectives. The review found that each activity met a national objective. Three CDBG-funded activities totaling \$738,944 were also reviewed for (1) office of economic development, (2) walking beat police program, and (3) Flint senior drop-in center to determine whether accomplishments met the performance goals outlined in the subrecipient agreements. The accomplishments for these three activities did meet the performance goals in the subrecipient agreements. For the same three activities, we traced reported accomplishments from the Consolidated Annual Performance

Evaluation Report (CAPER) to the City's records to ensure the CAPER was in agreement with City's records. We also determined that the City had been adequately monitoring the activities of the subrecipients.

### **CDBG and HOME Expenditures Were Eligible and Supported**

The City's procurement practices were evaluated through a review of construction procurements of \$11,597,912 under CDBG infrastructure improvement program, and six procurements of \$871,524 under the HOME loan. The review found that the City's procurement policies were consistent with HUD requirements. Also, the CDBG procurements were for infrastructure street repairs and improvements, and the HOME procurements were for housing rehabilitation or new construction work, and all the procurements were eligible construction related activities.

Six HOME loans totaling \$2,212,377 were reviewed which included two loans administered by the City's one active Community Housing Development Organization (CHDO) and four loans to private owners. We examined whether the (1) loans for the CHDO properties and to private owners were supported by subrecipient agreements or loan agreements; (2) City ensured that the loan recipients met the performance goals in its subrecipient/loan agreements; (3) City appropriately protected its investment through affordability restrictions and recorded the loans; (4) City ensured that families who are tenants in HOME-assisted housing were income eligible; and (5) loan files contained routine inspection reports. The review did not disclose any exceptions. We also found that the City met its matching requirements and is leveraging loan funds from private sources.

In addition, the planning and administrative costs for the HOME program were reviewed to ensure the costs were not in excess of the 10 percent limit. The review of planning and administrative expenses found that costs were not in excess of the 10 percent limit. We also selected a sample of \$232,511 in expenses for equipment, travel, and rent paid to a third party to determine if they were eligible and reasonable. The expenses examined were eligible and reasonable.

### **CDBG and HOME Program Income Was Properly Accounted For**

Program income earned under CDBG and HOME programs was reviewed for assurance that funds were properly accounted for and used in accordance with program requirements. The 2006 CAPER identified \$113,268 in CDBG program

income. The CDBG program income was adequately supported and was properly recorded in the City's accounting records. We also tested the program income to ensure that it was used for eligible activities.

The City's HOME income and its pattern of spending program income were reviewed. The City generated \$4,901,297 in HOME program income through loan repayments. We wanted to ensure that the City was spending program income before spending its program entitlement funds and HOME funds were obligated within two years and expended within five years, as required by HUD regulations. The City's expenditure patterns met these requirements. We also found that the City adequately recorded HOME program income and made progress spending the income before using its entitlements.

### **City Could Benefit by Increasing Use of HOME Funds**

The City had \$3,034,342 in unobligated HOME funds available at April 3, 2007. The City indicated that there had been a lower demand the past two years for funding for rental rehabilitation work. The combination of significant program income and lower demand resulted in significant unobligated and unspent HOME fund balances. The City also indicated that it has been working diligently to develop housing under its rental housing rehabilitation program. The City has one active CHDO and recently retained another experienced CHDO to assist them in expanding this program. The City could benefit by working with other non-profit agencies to create additional certified CHDOs to develop more housing under its rental housing rehabilitation program.

### **Conclusion**

The City generally administered its CDBG and HOME programs in accordance with HUD requirements. While the City has been spending HOME funds in accordance with regulatory requirements, the City could benefit by using the available HOME funds to expand its program. We encourage the City to actively pursue new CHDO partnerships and accelerate their disbursements of HOME funds to help more low and moderate income families.

## SCOPE AND METHODOLOGY

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We performed an audit of the CDBG and HOME programs administered by the City. Our fieldwork was completed at the City offices located at One Government Center, Fall River, Massachusetts from May to June 2007. Our audit generally covered the period July 2005 to June 2007, and was extended when necessary to meet our objectives. To accomplish our audit objectives, we:

- Reviewed applicable legislation, regulations, HUD handbooks/guidebooks, and HUD notices.
- Reviewed the City's policies and procedures for the organization's accounting controls, procurement practices, and monitoring policies to ensure they were consistent with HUD requirements.
- Evaluated the internal controls and conducted sufficient tests to determine whether controls were functioning as intended.
- Identified and examined controls over computer systems to identify sources of data, the relevance of data, and the reliability of the systems. Verified that the City inputted information into HUD's Integrated Disbursement and Information System.
- Reviewed independent public auditors' reports and HUD monitoring reviews.
- Selected a non-representative sample of three CDBG-funded activities totaling \$1,297,252 from a universe of 21 activities totaling \$3,429,009 based on large dollar amounts to determine whether the activities met at least one of the national objectives. We also selected a non-representative sample of three CDBG-funded activities totaling \$738,944 based on large dollar amounts from the same universe of 21 activities to determine whether accomplishments met the performance goals outlined in the subrecipient agreements.
- Selected a non-representative sample of two CDBG-funded activities totaling \$278,744 from a universe of 21 activities totaling \$3,429,009 based on large dollar amounts to determine whether the City is adequately monitoring its subrecipients.
- Identified activities that were slow to reach completion and/or did not meet goals and identified what corrective actions the City was taking to complete activities.
- Evaluated the City's procurement practices through a review of procurements under the HOME loan and CDBG infrastructure improvement programs. We reviewed 100 percent of the procurements of \$11,597,912 under the CDBG program, and a non-representative sample of six HOME procurements totaling \$871,524 from a universe of 45 procurements totaling \$3,373,725 based on large dollar amounts.
- Selected a non-representative sample of five categories of administrative expenses excluding payroll totaling \$232,511 or 82 percent of the universe totaling \$284,158 based on large dollar amounts and our knowledge of certain categories of expenditures that have a higher risk. We evaluated these expenditures to ensure that total expenses did not exceed regulatory limits and were reasonable in cost and appropriately supported. We also examined job descriptions to identify whether responsibilities of staff were commensurate with pay rates and whether there was any overlap in responsibilities.



- Determined whether \$113,268 in CDBG and \$4,901,297 in HOME program income earned by City had been properly accounted for.
- We selected a non-representative sample of six HOME loans totaling \$2,212,377 from a universe of 45 loans totaling \$3,000,877 based on recipients receiving multiple loans to determine whether loan amounts and restriction periods were calculated in accordance with program requirements and the City protected its investment of HOME funds, established written loan/subrecipient agreements, appropriately monitored the properties, and ensured that tenants were eligible.
- Determined whether the City met its matching requirements. We also selected a non-representative sample of four loans totaling \$1,212,850 in leveraged funds from a universe of 11 loans totaling \$2,284,970 in leveraged funds based on loans receiving the largest amount of leveraging to determine whether the City was leveraging from private resources.
- Evaluated the City's progress in its use of HOME funds to develop/rehabilitate housing through its loan program. We also evaluated the results achieved by the Community Housing Development Organization to develop/rehabilitate housing.

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

# INTERNAL CONTROLS

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

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Controls over administrative expenses
- Controls over tracking program objectives
- Controls to ensure that program activities are meeting the national program objectives
- Controls over procurement
- Controls to ensure that the City adequately monitors subrecipient performance
- Controls over matching and leveraging of funds

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

We did not identify any significant control weaknesses in the controls cited above.

# APPENDIX

## Appendix A

### AUDITEE COMMENTS



STEPHEN R. LONG  
Executive Director

### City of Fall River, Massachusetts Community Development Agency

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EDWARD M. LAMBERT JR.  
MAYOR

August 15, 2007

John A. Dvorak, Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General for Audit, Region I  
Thomas P. O'Neil Federal Building  
10 Causeway Street, Room 370  
Boston, Massachusetts 02222-1092

Dear Mr. Dvorak:

The City of Fall River and the Community Development Agency appreciate the opportunity to respond to your most recent compliance monitoring and audit conclusions. We acknowledge and concur with your findings that the City administered our CDBG and HOME Programs according to HUD requirements and that we are in compliance with CPD regulations. CDA has always been cooperative and eager in their approach to monitoring. The opportunity to learn how HUD approaches compliance and vice versa how the PJ approaches implementation are valuable opportunities in the training and understanding of the dynamics confronting HUD staff and CPD practitioners.

The City and CDA are well aware of the unobligated HOME funds and are addressing the issue. We have encouraged our CHDOs to submit projects, which meet the needs identified in our Consolidated Plan, we have an excellent First Time Homebuyers Program which mirrors the American Dream Initiative, and we are attempting to implement a Tenant Based Rental Assistance Program to fulfill a need of our residents formerly employed in the manufacturing sector that has been negatively impacted by foreign competition.

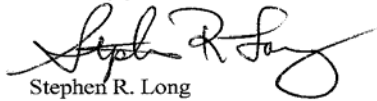
We are presently assessing 3 new CHDO projects and have committed approximately 1 million dollars to a 202 Assisted Living Project being developed by the Community Action for Better Housing, Inc. a local non-profit faith based organization. We are confident that a majority of these unobligated funds will soon be committed and address the needs of Fall River's low and moderate-income residents. We would happily consider projects from other CHDOs but our focus is to work and train our current CHDOs to make them a vital part of our City's affordable housing resources.

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The City acknowledges the work of Michael A. Motulski, Christine M. O'Rourke, and especially Morgan McCarthy. Their professional and critical approach to this audit kept the task focused and efficiently utilized the time of CDA staff.

In closing I invite you and your staff to visit our City, eat at our many fine ethnic restaurants, look around at some of our historical sights, beautiful architecture, and the many fine projects these programs have brought to our residents.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Stephen R. Long". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Stephen R. Long  
Executive Director