



City of Norfolk

Office of the City Auditor

Audit of the Community Development Block Grant's Operations at Transition Between Departments

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*City of Norfolk Office of the City Auditor
Audit of Community Development Block Grant
Operations at Transition Between Departments*

Honorable Mayor Alexander and Members of the Norfolk City Council:

I am pleased to present the audit report of Operations of the Community Development Block Grant Program at the time of transition to the Office of Budget and Strategic Planning. At the Director's request, the purpose of the review was to set a baseline to measure program progress after the transition from the Department of Neighborhood Development.

We noted several opportunities for improvements and discussed our findings with management and staff on April 10, 2019 and July 8, 2019. Recommendations to assist management and management's responses are included herein. Given the Program's transition between departments, the recommendations appear to be, for the most part, the result of past Program operations and procedures. Management agreed to the recommendations and has set a target time frame of 18 months or less for implementation.

We would like to thank the management and staff of the HUD Entitlement Unit and the Office of Budget and Strategic Planning for their cooperation and responsiveness to requests during the audit. We would also like to thank the City Attorney's Office, Department of Finance, and the Treasurer's Office for aiding as well.

If you have any questions, I can be reached at 664-4044 or via email at tammie.dantzler@norfolk.gov.

Respectfully submitted,

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Community Development Block Grant

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BACKGROUND

Authorized under Title I of the Housing and Community Development Act of 1974 (HCDA), as amended, the Community Development Block Grant (CDBG) is an annual grant to localities and states to assist in the development of viable communities. The Department of Housing and Urban Development (HUD) offers grantees (City) a high level of flexibility in choosing program activities. The City is free to select activities which best meet the needs of their communities, per the national objectives and other requirements of the CDBG Program. The City's Consolidated Annual Performance Evaluation Report (CAPER) captures CDBG activities and programs. For Fiscal Year (FY) 2019, the City's HUD Entitlement award for all Programs was \$5,953,631, and \$4,323,842 for the CDBG Program. It has become increasingly crucial for grantees (City) to spend these funds in a timely manner. Timely use of funds demonstrates funds are being used judiciously to address unmet community development needs.

CDBG funds are to help communities develop new affordable housing for both renters and homebuyers, rehabilitate existing homes and expand economic opportunities. As such, it is essential for program resources to be used effectively to meet local housing and community development needs and to stay in compliance with Federal program rules.

Another use of CDBG funding is for public service activities to be carried out by subrecipients. Funding for these activities in FY 19 was \$648,576. This funding is limited to 15 percent of that program year's entitlement grant, plus 15 percent of the preceding year's program income (if applicable).

The City provides CDBG funding to subrecipients to carry out agreed-upon, eligible activities on behalf of the City. HUD regulations require executed formal contracts between the City and subrecipients before the City can request reimbursement from HUD for subrecipient allowable expenses. Recipients may generate income, "program income," directly from the use of HUD funds. In general, the City must use program income before requesting reimbursement from HUD.

It is worth noting, on March 11, 2019 the White House released the first part of its federal Fiscal Year (FFY) 2020 Budget titled, "A Budget for a Better America; Promises Kept Taxpayers First," outlining priorities and funding recommendations for the 2020 federal fiscal year. The budget would eliminate key housing and community development programs, most notably the HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) programs, suggesting states and localities are better positioned to "address unique market challenges."

OBJECTIVES

The objectives of the audit were to determine if:

- CDBG processes need improvement to operate more efficiently and effectively;
- A process was in place for monitoring timeliness of grant funding and activities;
- CDBG funds held in a separate bank account were safeguarded, appropriate personnel-maintained custody and access to the account; and, whether



- Monitoring procedures were in place to ensure compliance with HUD rules and regulations.

SCOPE

The City Auditor's Office completed a turnover audit of the CDBG Program requested by the Director of Budget and Strategic Planning (*Budget Office*). The City's HUD Entitlement Unit recently transitioned to the Office of Budget and Strategic Planning from the Department of Neighborhood Development (*DND*). The intended use of the report is to establish a baseline of program operations at the time of transition to assist in the development and creation of processes to improve operational efficiency, responsiveness, and compliance.

The scope of review was limited to the status of the CDBG Program at the time of transition where program activities per system, budgets, and reports pertaining to FY 2018 and 2019 were available and within the objectives of our review.

Compliance and substantive testing of program activity for eligibility and accuracy of amounts posted to Advantage Financial Management System (AFMS) or Integrated Disbursement and Information System (IDIS) systems was not performed. Reviews were not performed for Emergency Solution Grant (ESG) or HOME Investment Partnership (HOME) program activity.

METHODOLOGY

To accomplish our objectives, we met with the Budget Director to gain an understanding of the Director's concerns regarding the CDBG Program, as the program transitioned from the Department of Neighborhood Development (DND) to the Budget Office. We interviewed the CDBG Program Manager and current personnel, former Program management in DND, and personnel in the City Attorney's Office, and Department of Finance to gain an understanding of Program details such as:

- Reports used by the HUD Entitlement Unit to track Program activity;
- Systems used to account for Program activity;
- Process flows of activities, information and reporting, including:
 - Reimbursement process,
 - Subrecipient contract process,
 - At-Risk Activity, reprogramming funds, and grant fund balance.

We also reviewed various HUD/CDBG regulations under **24 CFR Part 570** and guides explaining Program regulations and operations. In addition, we conducted reviews of CDBG bank statements for period 10/1/2018 through 12/31/2018, along with the City's external audit report dated December 19, 2018 for findings related to the CDBG Program.



GOVERNMENTAL AUDITING STANDARDS

The CDBG Program was included within the scope of the City’s FY 2018 external audit. The report dated December 19, 2018, states “the audit was conducted in compliance with the standards applicable to financial audits contained in Government Auditing Standards issued by Comptroller General of the United States.” The external auditor’s opinion on the financial statements was the City complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. We relied upon work performed by the external auditors when performing our review.

We obtained an understanding of significant internal controls within the context of the audit objective. We assessed whether internal controls were properly designed and implemented and performed audit procedures to obtain enough evidence to support the effectiveness of those controls. The extent of our assessment was dependent on the HUD Entitlement internal processes at the time transition, regulatory compliance, and City-wide operations. Our results indicated some opportunities for improvements, but none of the deficiencies are considered material weaknesses.

Data generated from the City’s Advantage Financial Management System (AFMS) and Federal Housing and Urban Development’s (HUD), Integrated Disbursement and Information System (IDIS) was reviewed and relied upon when conducting this review. The level of risk was assessed as low, as funds between the systems also flowed through a financial institution’s systems and was accurate for the period tested. Both systems have security and restricted access. The City’s financial system was recently audited, and the opinion was the financial statements present fairly the financial position of the City of Norfolk; however, minor exceptions for HUD’s IDIS system were noted during review.

We conducted this performance 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

The audit noted opportunities for the Budget Director to improve processes such as the timeliness of reimbursement for program costs, contract drafting and execution, and operational efficiency. Findings and recommendations are below:

1. Reconciliation between HUD’s IDIS System and City’s AFMS by CDBG Personnel

Condition: Although there appeared to be a reconciliation performed quarterly by the Department of Finance, CDBG personnel did not have a reconciliation process in place between HUD’s IDIS and the City’s AFMS financial system to ensure the accuracy and completion of the data entered in IDIS. Also,



there does not appear to be a consistent posting of IDIS Voucher or IDIS Activity ID numbers entered in the City's AFMS to align and easily match AFMS expenditures and revenues to IDIS draw-downs (funds reimbursed from HUD).

Criteria: A reconciliation process is considered an internal control, which is designed and implemented to protect the City from potential loss or misuse of resources. Implementation and practice of using strong internal controls are essential to ensuring transactions are properly authorized and accounted for, financial data is reliable and reimbursement for program activities are received.

Per City Policy & Administrative Regulations Chapter 10.1: Internal Control Policy – It is the policy of the City to establish and maintain internal control systems to reasonably assure the achievement of organizational objectives in operational efficiency and effectiveness, reliable financial reporting, safeguarding of assets, and compliance with laws, regulations, and program compliance requirements.

Cause: A process was not in place for CDBG personnel to reconcile program activities between the HUD's IDIS and the City's AFMS financial system to ensure amounts were posted correctly for the Entitlement Programs to operate as intended.

Effect/Potential Effect:

- a. If a reconciliation process comparing IDIS and AFMS entries is not in place, funds could be disbursed by the City to pay Program expenditures but not requested for reimbursement from HUD. Therefore, the City's general fund could be adversely impacted.
- b. Income could be generated from Program activity and not captured consistently in both IDIS and AFMS systems. Therefore, the city could be out of compliance with the HUD requirement to use income generated from Programs to fund activities.

Recommendation:

A reconciliation between HUD's IDIS and the City's AFMS should be performed periodically by CDBG personnel to ensure data between the systems is accounted for properly and reimbursements to HUD are requested on a timely basis by the City.

A cross-referencing process for matching transactions within and between IDIS and AFMS systems is recommended for a reconciliation between the systems. For example, all employees would use a standard, consistent naming convention when entering the "IDIS ID" number and IDIS "Voucher Number" into the AFMS for expenses and revenues for HUD program activities.

Management's Response

The city's HUD Entitlement Team is currently working on Standard Operating Procedures (SOP) which include cross referencing transactions between IDIS and AFMS systems and performing monthly reconciliations between AFMS and IDIS.



2. Subrecipient Contracts

A. Subrecipient Contracts were Signed After Contract Periods Began

Condition: Subrecipient contracts were not signed by City personnel until several months after contract periods began. As a result, execution dates were after contract effective dates and the City could not request reimbursement from HUD for subrecipient expenses until after the contracts were executed. We tested seven contracts and noted the length of time between the effective date and date of execution was between 179-294 days.

Criteria:

Per HUD regulation 24 CFR § 570.503 - Agreements with subrecipients Before disbursing any CDBG funds to a subrecipient, the recipient (City) shall sign a written agreement with the subrecipient...

Norfolk City Code, Sec 2-7 – Signing and sealing of deeds, contracts, etc.: “All deeds, leases, contracts... authorized to be made or entered into by the city, ... shall be signed by either the city manager, a deputy city manager, a city officer designated in writing by the city manager to act as a deputy city manager for a specified period...”

Cause: We observed several reasons the signing of subrecipient agreements by City personnel were delayed:

- The current process involves routing contracts to many different departments and personnel for approval.
- The City and subrecipients repeatedly fine-tuned contracts due to errors and/ or misunderstandings.
- CDBG personnel retyped budget information received from subrecipients for drafting contracts, creating a 29-page packet for 17 subrecipients which appeared time-consuming.
- Subrecipient budget information could have been received by CDBG personnel after the contract effective date.

Effect/ Potential Effect:

As a result of contracts not being executed in a timely manner, the City may be at risk of subrecipients not carrying out required responsibilities. Without an executed contract there is no legal obligation by the parties to perform contract requirements. There is potential for “indemnification” as well as “other subrecipient compliance requirement” issues, given the contract period date is before the contract execution date.

In addition, the City cannot request reimbursement from HUD until contracts are signed. Lack of funding may lead to a delay in payment reimbursement to subrecipients; or if subrecipients are reimbursed by the City, the City will not have immediate use of these funds.

Recommendations:

1. We recommend HUD Entitlement Unit personnel coordinate with the City Attorney’s office and agree on an efficient process for compiling subrecipient information for accurately, efficiently and expeditiously drafting subrecipient contracts before the beginning of the contract period.



To reduce the duplication of efforts, it may be helpful for the City Attorney's Office to copy subrecipient information necessary for contract terms directly from the subrecipient's Excel budget spreadsheets into contracts/ amendments. This process will help limit errors and reduce time drafting agreements.

Management's Response:

The city's HUD Entitlement Team will provide the assigned city attorney a worksheet with requested information required to complete the contracts.

2. To expedite the contract execution process, the City Manager may consider delegating the function of signing subrecipient agreements to either a Deputy City Manager or an authorized employee.

Management's Response:

The city's HUD Entitlement Team has discussed this with the City Manager's office.

3. Although it may be permissible to have effective dates after execution dates, there are risks involved when there is an earlier contract effective date from the date all parties sign, approving the agreement. To eliminate any ambiguity and risk, it is recommended that the City sign and date contracts, if possible, before the beginning of the contract period (effective date).

Management's Response:

The city's HUD Entitlement Team is currently in the process of obtaining and compiling subrecipient information required for preparation of the FY 2020 contracts. We have met with the assigned attorney to discuss the process needed for expedited draft preparation.

The city's HUD Entitlement Team has discussed with the assigned attorney the recommendation to have contracts signed and dated by adding date lines in the signing of contracts.

B. Contract Provision – Office of City Auditor

Condition: Provisions in the contract do not directly align with the roles and responsibilities of the Office of the City Auditor. During a review of subrecipient contracts for FY2017, the following verbiage was noted in Article V - Financial Management; Section 5.2 Financial Monitoring: "... the Office of City Auditor shall monitor, review, and evaluate the financial procedures of the Subrecipient through documents submitted to the City and through on-site monitoring. ... With reasonable notice being given to Subrecipient, City shall schedule at least one on-site visit during the term of said contract and other visits if needed."

Criteria: Charter of the Office of the City Auditor's Operations and the Annual Audit Plan

Cause: The City Attorney's Office added the provision in addition to "a right to audit" clause.

Effect: Given the contract provisions, the Office of the City Auditor appears to violate subrecipient agreements. The Office of the City Auditor would perform tasks as part of its annual work plan or upon request by City Council, not as ongoing responsibilities per contract requirements.



Recommendation: It is recommended the City Attorney remove the provision **Article V- Financial Management; Section 5.2 Financial Monitoring** referencing the Office of the City Auditor from all subrecipient agreements as well as any other City contracts. However, the “right to audit” clause should remain.

Management’s Response:

The city’s HUD Entitlement Team has discussed with the assigned attorney the recommendation to remove this language from the contracts going forward.

3. Subrecipient and City Timeliness Issues

Condition: Time lags existed between when: a) subrecipients requested reimbursement from the City for program activities, b) the City made payments to subrecipients, and, c) the City requested reimbursements from HUD.

Subrecipients communicated concerns to City Council regarding the length of time to receive reimbursement for their programs’ expenses. Subsequently, the City reimbursed subrecipients for program activities in December 2018 and requested funds from HUD thereafter.

Criteria:

- Per City subrecipient (boilerplate) contract Article III – Compensation and Use of Funds, 3.2 Payments. “...Subrecipient agrees to submit requisitions for payment on a monthly basis; if the request is not provided in a timely manner for the current quarter the City will not reimburse the request until the following quarter... All requests for reimbursement must include invoices, receipts and cancelled checks demonstrating the use of funds for the purposes outlined in the budget... The Subrecipient must submit to the City a validated copy of the bank deposit slip for each reimbursement payment received from this grant.”

Article III – Compensation and Use of Funds, 3.5 Withholding Payments. “All payments to Subrecipient are subject to the Subrecipient’s compliance with this Contract and HUD regulations...”

- Per **HUD regulation, 24 CFR § 570.503** - Agreements with subrecipients (a) before disbursing any CDBG funds to a subrecipient, the recipient (City) shall sign a written agreement with the subrecipient.
- Per **HUD EXCHANGE** (Resources and assistance to support HUD’s community partners), “Disbursement of funds must occur in a timely manner. The general rule is that CDBG funds must be used within three business days from when they are drawn down.”
- Per **Budget Director**, budget account numbers are required to be set up in AFMS (City’s Finance system) annually. If budget account numbers are not entered into the City’s Finance system, expenses cannot be posted, or reimbursements paid to subrecipients.

Cause:

- CDBG personnel received voluminous and/ or erroneous expense information from subrecipients to review, send back for correction, receive and process. During our inquiry with personnel, it was



mentioned there may have been inconsistencies and/ or misunderstandings as to the criteria considered eligible for expenses.

- The HUD Entitlement Unit experienced turnover and expense reimbursement requests were sent to individuals' City email accounts. The emails were unintentionally disregarded, and communication not reciprocated to the Subrecipients. During the course of our review, management created a group email address, "HUDEntitlement@norfolk.gov," for several employees to have access to all incoming emails to the HUD Entitlement Unit from subrecipients to eliminate the issue of emails being overlooked due to employee absences or termination.
- The HUD Entitlement Unit was/ is understaffed. At the beginning of our review, there were three full-time and one part-time employees in HUD Entitlement Unit, one was recently hired and one resigned. At the end of our review, there were two full-time and one part-time employees. Management indicated to sufficiently staff the unit, there is a goal to have six to eight full-time equivalent personnel.
- Signed/ executed contracts were not in place; therefore, per regulations, the City could not request funds from HUD. Since the Program is reimbursement-based, if funds are not available in the CDBG bank account at the time to pay subrecipients, the Treasurer's office will hold outbound checks.
- Per discussion with management, account numbers for HUD Entitlements were not set up in the City's AFMS financial system in a timely manner. Without account numbers in the system, expenses to be paid cannot be posted.

Effect/ Potential Effect:

At a public City Council meeting on December 18, 2018, four nonprofit agencies voiced concerns of not being expeditiously reimbursed for expenses by the City and that the City did not execute their contracts in a timely manner during Program years. Subrecipient concerns were aired publicly on television and YouTube as well as the newspaper, potentially damaging the City's reputation. Also, when contracts are not in place, all parties may be in violation of contract responsibilities.

Also, when the City does not submit timely reimbursement requests to HUD for payments made to subrecipients, the City does not have immediate use of the funds and may be losing interest on those funds. The City could also be at risk of losing or being delayed reimbursement from HUD, if subrecipient activities are deemed ineligible or in the event of a government shutdown.

Recommendation:

1. Execute contracts before or at the time the contract period begins. The contract drafting process should start, if possible, before the prior program year ends.

Management's Response:

The city's HUD Entitlement Team has implemented a process to begin compiling the information needed from subrecipients as early as possible. This year, we have begun the process and will be working with the subrecipients and assigned city attorney to get the contracts completed timely.



2. Develop a process to request funds from HUD, when possible, before paying subrecipients. This will ensure funds are available in the CDBG bank account, and subrecipient's program expenses are reviewed for eligibility prior to reimbursing subrecipients.

Management's Response:

The process of reviewing submitted documentation then requesting funds from HUD prior to reimbursing subrecipients is the long-time standard procedure and will continue.

3. **City Charter section 72. Certification of Funds** states "no contract, agreement...involving expenditure of money shall be entered into ...unless the director of finance shall first certify to the Council... that the money required for such contract, agreement...is in the city treasury..."

It is recommended management assign the responsibility of setting up CDBG AFMS accounts to ensure the encumbrance of funds at the time of contract execution to employees with knowledge and appropriate access and in advance of subrecipients submitting reimbursement requests.

Management's Response:

It is currently the responsibility of the city's HUD Entitlement Team to enter the subrecipient CTs in AFMS. This cannot be done until the contracts have been fully executed. The HUD Entitlement Team is working with city budget analysts to incorporate the complete HUD Entitlement budget in the city's overall budget software for the start of the fiscal year. This will assist HUD staff in the timely completion of the subrecipient accounts.

4. Communicate the benefits of electronic funds transfer/automated clearing house (EFT/ACH) to subrecipients such as receiving payments faster and satisfying the contract requirement of "subrecipients submitting a validated copy of the bank deposit slip" to confirm receipt of payment.

Management's Response:

The city's HUD Entitlement Team has recommended that subrecipients receive electronic payments and in February 2019 emailed the forms with the FY 2020 pre-award documentation request to all subrecipients asking them to establish ACH accounts with the city.

5. Develop a subrecipient annual training program to effectively communicate and clarify any misunderstandings as it relates to the reimbursement process, program requirements, as well as allowable and unallowable program activities. The training program could potentially aid in accelerating reimbursements to the City from HUD and reimbursements to subrecipients from the City.

Management's Response:

The city's HUD Entitlement Team has met with subrecipients and will continue to work with them on streamlining the reimbursement process using standardized forms submitted electronically.

The city's HUD Entitlement Team will meet with subrecipients at the beginning of each fiscal year to go over requirements and needs for submission of reimbursements and quarterly reporting.

6. Increase the number of FTE's and adequately train the HUD Entitlement Unit in a reasonably short time frame to ensure HUD requirements and City processes are completed efficiently, accurately, and in



a timely manner; however, the possibility of the CDBG program being eliminated in FY 2021 should be considered.

Management's Response:

The necessary City approvals to hire new staff are in place. Position postings are on the city's online employment website. The city's HUD Entitlement Team currently has three full time and one part time staff members and one new hire starting May 28, 2019. There are two vacant positions currently being sought.

7. Continue to use the group email so that several employees will have access to all incoming email to the HUD Entitlement Unit from recipients, eliminating the issue of emails being over-looked due to employee absences.

Management's Response

City departments will be asked to submit reimbursement requests and any correspondence to the HUDEntitlement@norfolk.gov email.

4. At-Risk Projects/ Timeliness Ratio – Funding not Used in a Timely Manner

Condition:

A. At-Risk Funds At the time of review, the CDBG Program had approximately 61 Projects categorized as "At Risk" (grantee does not use funds timely) by HUD in the IDIS system. Of the At-Risk balances totaling \$3,015,699, \$1,087,899 relate to activities in FY 2015 and prior, which the City should close provided the national objective has been met, per HUD Richmond Field Office.

In detail, HUD listed 18 projects as "overdue," of which two are indicated as "Awaiting Field Office Review." If the City does not submit a plan or confirmation by the "due date," the activity is marked "OVERDUE." The Field Office listed six projects awaiting remediation action, all of which were overdue, and the City was requested to verify remediation action within 30 days of the letter dated March 11, 2019.

B. Funds Awarded Not Used The City is at risk of funds expiring, funds being canceled or a reduction in future grant funding by the amount exceeding the 1.5 timeliness threshold. Some of the funding years date back as far as FY 2012.

Exhibit A below was scheduled from information within the letter received by the City from the HUD Richmond Field Office on March 11, 2019 (*Annual assessment of the City of Norfolk's overall performance ...during Performance Year 2017 (1 Jul 2017-30 Jun 2018)*) explaining CDBG, HOME and ESG grant amounts and dates funds may expire for the Programs as follows:



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EXHIBIT A		CDBG Program				
CDBG Program	Reason	HUD FY (City FY= 1+HUD FY)	Due Date	Amount of Funds At-Risk (as of the time of review 3/2019)	Outcome if not resolved	
CDBG Total Grant Balance must be below Timeliness Ratio 1.5 * grant awarded	\$9,545,774 <u>\$6,485,764</u> <u>\$3,060,011</u>	<i>less</i> FY2014- FY2018 (\$4,323,842 *1.5)	5/2/2019	\$3,060,011	The City may be subject to a reduction of the total grant amount by which it exceeds the 1.5 timeliness threshold	
Other HUD Entitlement Programs noted in 3/11/2019 HUD Richmond Field Office letter:						
Program	Reason	HUD FY (City FY= 1+ HUD FY)	Due Date	Amount of Funds At-Risk (as of the time of review 3/2019)	Outcome if not Resolved	
ESG*	FY2017 grant fund balance	FY2017	10/19/2019	\$480,333	Funds must be drawn down to avoid possible recapture by 10/19/2019.	
ESG	FY2012 grant fund balance	FY2012	9/30/2019	\$28,817	Funds should have been expended by 8/2/2014. Amount will be recaptured if not expended by 9/30/2019	
ESG	2013 unexpended grant balance	FY2013	9/14/2019	\$10,726	Funds should have been expended by 8/6/2015. Funds should be drawn by 9/14/2019	
ESG	2016 unexpended grant balance	FY2016	9/14/2019	\$36,404	Funds should have been expended by 8/22/2018. Funds should be drawn by 9/14/2019	
HOME*	2012 HOME entitlement funds which had not been expended	FY2012	9/30/2019	\$422,862	Funds will be canceled and returned to US Treasury if not expended by 9/30/2019. \$19,912.80 of the \$422,862 had not been committed	
HOME	Grant specific 5-year disbursement shortfall from 2014	FY2014	8/31/2019	\$1,090,866	Funds must be disbursed by 8/31/2019	

**Informational purposes only. ESG and HOME programs were not included in the scope of review*



C. IDIS System A few discrepancies were noted between the IDIS system CDBG Activities Dashboard Report listing At-Risk activity by status and the “Summary Snapshot,” when comparing to the detail supporting the summary page. For example, there were activities listed as “overdue” but were “Awaiting Field Office review” from HUD. Thirteen activities were noted under “Awaiting Field Office Review” but only twelve were listed in the detail.

Criteria:

Under the provisions of **24 CFR 570.902(a)** of the CDBG regulations, an entitlement grantee is considered to be timely, if 60 days prior to the end of the grantee's program year, the balance in its U.S. Treasury Department line-of-credit does not exceed 1.5 times the annual grant for its current program year.

Grantees are required to report all accomplishments achieved for each activity in a program year (excluding planning and administration activities). Complete information must be reported for each activity. The data is required to demonstrate national objective compliance and to account for the use of CDBG funds. Each activity, except for planning and administration activities, must also meet a national objective to either benefit low- and moderate-income persons, aid in the prevention or elimination of slums or blight, or meet an urgent need.

CDBG activity is flagged “At-Risk” in the system when one or more of the following is met:

- a. Funds outstanding for a year – no draw-down (no expense reimbursements)
- b. Three years without reporting any accomplishments for the activity
- c. 80% of the funded amount has been drawn and no accomplishments have been reported

Cause:

- HUD Entitlement Unit did not update recent information for At-Risk activities for closed-out or remediation plans in HUD’s IDIS system.
- The City did not draw down funds through HUD’s IDIS system to meet the timeliness ratio of 1.5 times the current grant amount.
- The IDIS system may contain program “bugs.”

Effect/Potential Effect:

- The City may be subject to a reduction of the total grant amount by which it exceeded the threshold of 1.5 times the annual grant for its current program year and is also at risk of funds expiring or canceling for HOME and ESG Programs.
- If recipient accomplishments are not submitted to HUD, and / or HUD’s reviews of remediation plans and projects do not meet the national objective or expenses are considered ineligible, the City may have to repay HUD for project grant amounts.
- Additional work may need to be performed and regulatory requirements met if funds are reprogrammed to other projects.
- IDIS reports may contain inaccurate data relied upon for decision making.



Recommendations:

1. Continue using current processes recently developed to monitor program funds for timeliness and community benefit.

Management's Response:

The city's HUD Entitlement Team is currently reviewing HOME and ESG funds and working towards meeting the timeliness schedule for those funds.

The city's HUD Entitlement Team is currently researching all At-Risk activities in IDIS to take appropriate actions and address any balance issues.

2. Reply to the HUD Richmond Field Office within 30 days of the letter dated March 11, 2019 with the information requested.

Management's Response:

The city's HUD Entitlement Team is currently researching the noted activities in the letter to take appropriate actions and respond to all At-Risk activities in IDIS.

3. Review, address concerns and close, if appropriate, all the activities noted in the HUD Richmond Field Office letter.

Management's Response:

The city's HUD Entitlement Team is currently researching the IDIS dashboard list to take appropriate actions and respond to all At-Risk activities in IDIS.

4. Allocate HOME and ESG program funds to eligible projects by timeframes as specified in the HUD Richmond Field Office letter so the City's HUD Entitlement Program does not lose grant fund amounts.

Management's Response:

The city's HUD Entitlement Team are working on HOME and ESG spending plan with the end goal of meeting the timeliness dates as specified.

5. Meet the timeliness ratio for the current year to prevent any future grant fund reductions.

Management's Response:

For the CDBG FY 2019 allocation of \$4.3 million, a proposed reallocation plan of funding was placed in the Virginian Pilot on February 3, 2019 adhering to all HUD requirements. The reallocation project funds enabled the city to meet the timeliness date of May 2.

6. Contact the HUD Richmond Field Office and report discrepancies noted in the report data to ensure the information used is accurate and complete.

Management's Response:

The city's HUD Entitlement team will contact HUD regarding discrepancies there may be with the IDIS reports.



5. Program Monitoring

A. *CDBG Program Personnel*

Condition: During the audit, federal program monitoring procedures were in the process of being developed; however, it was uncertain if procedures would also include monitoring subrecipient compliance with City contracts.

Criteria: CDBG regulations, **24 CFR § 570.501 - Responsibility for grant administration (b)** states, “The recipient (*City*) is responsible for ensuring CDBG funds are used in accordance with all program requirements...The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate action when performance problems arise...”

City-Subrecipient contracts contain provisions in addition to federal requirements and should be included when monitoring for compliance.

Cause: The CDBG program recently transitioned to the Office of Budget and Strategic Planning from the Department of Neighborhood Development and new personnel have been assigned to the compliance function.

Effect/Potential Effect: If subrecipients are not meeting performance goals the City may not be aware to promptly address and ensure compliance with program requirements. In addition, subrecipients may not be carrying out contract responsibilities and requirements as stated in agreements.

Recommendation: Include subrecipient contract compliance monitoring in the HUD Unit compliance function. For those contract provisions not included in the federal monitoring program, create a brief checklist to document subrecipient contract compliance. This program should be in writing and included in the CDBG Operating Procedures Manual.

New personnel have been assigned the responsibility for monitoring compliance. Management indicated personnel would be attending compliance training and developing a monitoring program. We agree with this course of action.

Management’s Response:

Staff are working on a monitoring plan. The HUD Entitlement Team have attended two week-long CDBG trainings to understand compliance and processes to assist in developing the plan. The intent is to begin visits after June 1, 2019. New staff members have experience with developing plans and performance monitoring as do other staff in the Office of Budget and Strategic Planning for assistance.

The city’s HUD Entitlement Team will consider a checklist for all subrecipients’ contract compliance.

B. *External Audit Review*

Condition: As of the date of our review, an audit exception noted during the external audit remained unresolved. During the Single Audit for the year ended June 30, 2018, the external auditor's representation letter stated, “The City has complied with all aspects of contractual or grant agreements that would have



a material effect on the financial statements in the event of noncompliance.” However, one exception was noted: “The City does not maintain property records for equipment purchased with federal funds in accordance with 2 CFR section 200.313(d)(1).”

Criteria:

Per **2 CFR section 200.313(d)(1)**, property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property, who holds title, the acquisition date, cost of the property, percentage of federal participation in the project costs for the federal award in which it was acquired, the location, use and condition of the property and any ultimate disposition data.

Cause: The HUD Entitlement Unit was not aware of the requirement.

Effect/Potential Effect: The City is not in compliance with the requirements of the program.

Recommendation: The HUD Entitlement Unit should develop a procedure to record and maintain property records of equipment purchased with Federal funds per **2 CFR 200.313(D)(1)** as a part of the CDBG Operating Procedures Manual, in accordance with the external auditors’ recommendation.

Management’s Response:

The city’s HUD Entitlement Team are working on policies and procedures for property and equipment purchased with federal funds.

6. Federal Budget Proposal to eliminate CDBG and HOME Programs for FFY 2020 (City FY2021)

Condition: Per City’s FY 2020 Annual Plan draft, “The proposed HUD Budget for Federal Fiscal Year (FFY) 2020, released on March 11, 2019, eliminates funding for the Community Development Block Grant (CDBG) Program, the Home Investment Partnership Program (HOME), and the Public Housing Capital Fund. The elimination of the CDBG and HOME Program would significantly reduce affordable housing opportunities for low- to moderate-income (LMI) families. The elimination of the Public Housing Capital Fund would drastically reduce funding available for critical repairs needed to maintain affordable Public Housing properties.”

Criteria:

Budget of the US Government FY2020(Federal Fiscal Year), “A Budget for a Better America Promises Kept. Taxpayers First.”

“The Budget ...re-defines the proper role of the Federal government by proposing to eliminate programs that have failed to demonstrate effectiveness, such as the Community Development Block grant (CDBG) program, recognizing that State and local governments are better equipped to address local community and economic development needs.”

Cause: Per **Budget of the US Government FY2020 (p55)**, “The program that has expended more than \$150 billion since its inception in 1974 but has not demonstrated sufficient impact. Studies have shown



that CDBG’s allocation formula...is ineffective at targeting funds to the areas of greatest need, and many aspects of the program have become outdated.”

Effect/ Potential Effect: The impact on the City if the federal government eliminates CDBG funds:

- City and Public Programs (nonprofit agencies) may cut back or discontinue providing services to the LMI (low- to moderate-income) community; the City would need to appropriate local funds and/ or appeal to the State to continue services;
- The City’s may need to reallocate HUD Entitlement Unit resources;
- Without receiving assistance from federal and local governments, the LMI (low-moderate income) community may suffer, leading to other potential housing and community issues.

Recommendation: It is recommended the City develop a plan outlining procedures, processes, and communication to citizens, citizen participation groups, subrecipients, City Departments, and any other parties affected by the elimination of the CDBG and HOME Program funding by the federal government.

Management’s Response:

The HUD Entitlement Team will discuss what actions should be taken to plan for the possible elimination of the CDBG and HOME Program funding by the federal government.

OBSERVATIONS

1. Personnel should have an updated reference manual to research when presented questionable circumstances related to working with the Program. It is recommended CDBG personnel update the 2013 Standard Operating Procedures Manual, and train employees for understanding current Program processes and procedures. The manual should be updated on an ongoing basis to ensure compliance with current HUD guidance and any HUD system changes and reports. Management may consider utilizing “Basically CBDG for Entitlements”-HUD, Office of Block Grant Assistance when updating the 2013 Standard Operating Procedure Manual.
2. Income generated by the HUD Entitlement HOME program was not properly appropriated and added to entitlement grant funds in AFMS; therefore, the City could not use this program income generated to pay for program expenses incurred during the period. A City ordinance allocating the funds was approved by City Council April 2019. A reconciliation between HUD’s IDIS system and the City’s AFMS will help to ensure data between the AFMS and IDIS systems is accounted for properly.