

**Review of CDBG/HOME Funds**

**August 2014**



**CITY AUDITOR'S OFFICE  
CITY OF GAINESVILLE, FLORIDA**

*City of*  
**Gainesville**

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*Inter-Office Communication*

August 19, 2014

**TO:** Audit, Finance and Legislative Committee  
Mayor Ed Braddy, Chair  
Mayor-Commissioner Pro Tem Todd Chase, Member

**FROM:** Brent Godshalk, City Auditor

**SUBJECT:** Review of CDBG/HOME Funds

**Recommendation**

The Audit, Finance and Legislative Committee recommend the City Commission:

- 1) Accept the City Auditor's report and the response from the City Manager, and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

**Explanation**

In accordance with our Annual Audit Plan, the City Auditor's Office has completed a Review of CDBG/HOME Funds. The primary objective of our audit was to evaluate the system of management control over the CDBG/HOME funding process to ensure these funds are adequately monitored and regulations complied with. During our review we interviewed key personnel, analyzed operating data and evaluated management controls.

Based on the results of our review, we believe the Housing & Community Development Division has strong management controls in place over the CDBG/HOME funding process. The attached report provides five recommendations which we believe will help to strengthen management controls related to monitoring recipients and obtaining adequate documentation related to compliance and reporting.

We request that the Committee recommend the City Commission accept our report and management's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

**City of  
Gainesville**

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**Inter-Office Communication**

July 14, 2014

**TO:** Russ Blackburn, City Manager  
**FROM:** Brent Godshalk, City Auditor  
**SUBJECT:** Review of CDBG/HOME Funds

In accordance with our Annual Audit Plan, the City Auditor's Office has completed a Review of CDBG/HOME Funds. The primary objective of our audit was to evaluate the system of management control over the CDBG/HOME funding process to ensure these funds are adequately monitored and regulations complied with. During our review we interviewed key personnel, analyzed operating data and evaluated management controls.

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Our recommendations for improvements were reviewed with Jacquelin Richardson, Housing & Community Development Manager and Burnadine Rich, Housing & Community Development Supervisor, during our exit conference on July 8, 2014. I would like to acknowledge Jacquelin Richardson and her staff for their professional courtesy and cooperation during our review.

Please review the attached written report, which documents our audit recommendations and provide a written response within 30 days. Our report, including the management responses, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval. The next meeting is currently scheduled for August 19, 2014. Until that time, this draft report and your draft response are exempt from Florida's public records law.

Thank you to you and your staff for making this a productive process. Feel free to call me if you have any questions.

cc: Fred Murry, Assistant City Manager  
Jacquelin Richardson, Housing & Community Development Manager  
Michelle Torma, Assistant City Auditor

## **OBJECTIVES, SCOPE AND METHODOLOGY**

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of CDBG/HOME Funds. The primary objective of this audit was to evaluate the system of management control over the CDBG/HOME funding process. Our procedures included interviewing key staff from the Housing & Community Development Division, observing operations, reviewing management controls and testing a selected sample of recipients who received CDBG and HOME grant funds with supporting documentation. We also reviewed previous findings issued by the Department of Housing & Urban Development and the City's external auditors; Carr, Riggs & Ingram, who have performed recent required compliance and financial audits. The scope of our review generally focused on CDBG and HOME expenditures during the period from October 1, 2011 to September 30, 2013.

As for all of our audits, 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.

Based on the results of our review, we believe opportunities exist for strengthening management controls of the CDBG/HOME process. The attached report provides several recommendations related to improving internal controls. Specific recommendations include improvements in the annual maintenance inspection process, improved procedures to ensure property insurance declarations are received, implementation of periodic on-site monitoring of outside agencies, improved reconciliation of the housing program expenditure summary report and improved procedures to ensure estimates for work are maintained in client/project files. Each of our recommendations has been discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

## **BACKGROUND INFORMATION**

The City's Housing & Community Development (HCD) Division provides for the administration, distribution and oversight of Community Development Block Grant (CDBG) program and HOME Investment Partnerships Program grant funds. Primary responsibilities include:

- Assisting City departments and outside agencies that receive CDBG, HOME and General funds to implement their projects in compliance with federal and local grant requirements.
- Assisting the Citizens Advisory Committee for Community Development (CACCD) in reviewing and making recommendations on CDBG and HOME funded projects.
- Assisting other City departments and outside agencies, as appropriate, in submitting application for other state and federal grants to address housing and community development needs.
- Supporting the City's efforts to implement the 10-Year Plan to End Homelessness in Gainesville and Alachua County.
- Providing an array of programs and services to address housing needs in the community, and providing affordable housing opportunities to improve the quality of life for low-income citizens, and revitalize and enrich neighborhoods in the City.
- Implementing neighborhood revitalization efforts through the new development and preservation of housing and rental housing in CDBG-targeted neighborhoods with emphasis on public/private partnerships, and on strategic targeting of resources for housing programs and services.

- Assisting not-for-profit housing providers in their efforts to construct new affordable homes for low income families via land donations, when available, and technical assistance.
- Implementing and administering the City's Community Grant Program to provide grants to non-profit organizations related to activities that support the City of Gainesville's goals to provide services to needy individuals and families.

CDBG and HOME grant programs are awarded on an annual basis. Both funding sources are separate and distinct HUD programs administered by Housing & Community Development. Funding for each program is distributed to outside agencies as well as departments within the City. In order to distribute these funds, a formal application and funding criteria is used requiring each agency to present detailed information about their funding request, including project description, other available funding sources and how each project or service would complement services already provided by the City, or what benefits the City would receive for funds provided. Applications are then provided to the reviewing advisory board and a presentation is made by applicants and on site visits are performed, if applicable. The advisory board prepares funding recommendations based on agency requests and presents these to the City Manager and the City Commission for approval. Following is a brief background of each program.

The Community Development Block Grant (CDBG) program was authorized under Title 1 of the Housing and Community Development Act of 1974. CDBG emerged from the consolidation of eight other programs under which communities competed nationally for funds. Recipients of CDBG funds include local governments in several categories. The City of Gainesville qualifies based on the Entitlement Program which requires a population over 50,000 to be eligible. Participating local governments receive an annual allocation of CDBG funds based on grant funds appropriated by Congress. The primary objective of Title 1 of the Housing and Community Development Act of 1974 is the development of viable urban communities.

Activities for which CDBG grants may be applied include:

- Public facilities and improvement including acquisition, installation and construction of infrastructure.
- Public services including job training and employment services, health care, substance abuse programs, fair housing counseling; and
- Rehabilitation activities of residential low income public housing or publicly or privately owned commercial or industrial buildings.

The HOME program was created by the National Affordable Housing Act of 1990 to provide affordable housing to lower income households, expand the capacity of non-profit housing providers, strengthen the ability of state and local governments to provide housing and leverage private sector participation. HOME Funded activities may include homeowner rehabilitation and home buyer construction.

These funding programs are designated for outside agencies and set-asides used for funding City projects. In FY 2012, the set-asides included City Housing programs, the administration of CDBG and HOME programs, Code Enforcement and cold weather shelter for the homeless.

Services and assistance provided by Housing & Community Development (HCD) through these grants include:

Down-payment Assistance – The City provides down-payment and closing assistance to eligible homebuyers, reducing the total cost of rehabilitating or purchasing a home. Eligible costs include down-payment, closing and other reasonable related costs. The maximum award is \$3,500 per client and up to \$4,000 for home purchases in Cedar Grove II.

Emergency Repair Program (ERP) – This program provides emergency housing repair to low income homeowners within the City of Gainesville focused on the worst case housing and retrofit needs for the physically challenged. This program addresses emergency repair needs of clients already on the City’s owner-occupied rehabilitation waiting list. The objective of the ERP is to reduce total rehabilitation costs by correcting problems before they become more significant. Once emergency repairs are complete, the client is placed on the waiting list for full rehabilitation at a later date. Emergency repairs include roof, electrical, heating or gas leaks, handicap accessibility retrofit and lead-based paint testing. The maximum award from this program is \$10,000.

Roof Repair Program – Roof replacement is the Housing Division’s most frequently requested emergency item and if not repaired immediately could result in increased cost. This program works with the ERP to provide cost effective use of program dollars through early intervention. Eligible repairs are limited to the roof of the structure. The maximum award is \$5,000 per home.

Housing Reconstruction Program – This program started in 2001 and addresses the housing needs of low income homeowners whose units are beyond rehabilitation due to major code violations and high repair costs required to meet minimum housing codes. Funding is reserved for homeowners who are already on the Housing Division’s Owner-Occupied Rehabilitation waiting list. This program assists homeowner’s with demolishing the existing structure and rebuilding a new structure on the same site. The maximum amount awarded is \$55,000.

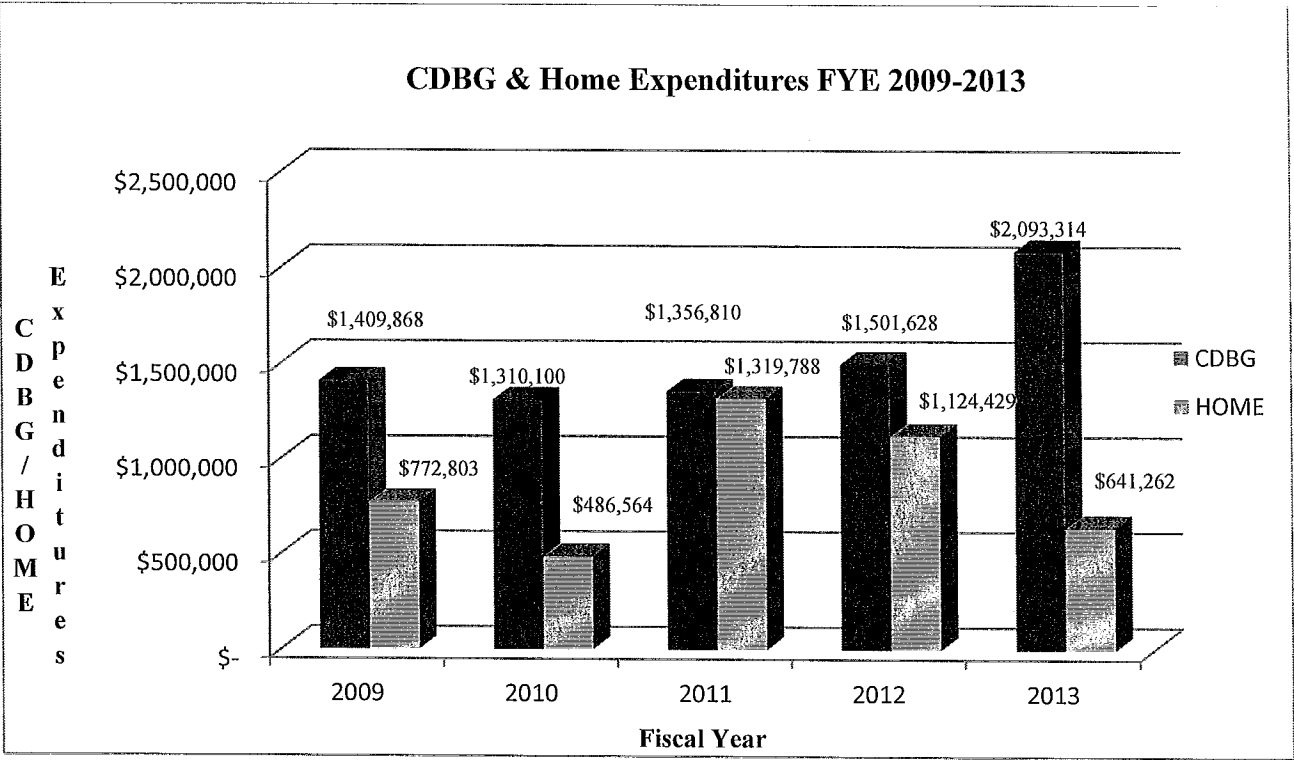
Moderate Rehabilitation Program – This program addresses the deterioration of homes occupied by low income families in the City. The program covers health and safety related repairs that cannot be resolved through other programs because they exceed normal funding limits. Clients who are on the City’s existing ERP and/or Owner-Occupied Rehabilitation waiting lists qualify for this program. The maximum award is \$20,000 per home.

Owner-Occupied Rehabilitation – This program addresses the housing needs of low income homeowners by eliminating all code violations and other unsafe living conditions in the home. Extensive rehabilitation services are provided including roofing, electrical, plumbing, lead based paint, termites, heating, insulation, painting, doors and windows. The code violations in these homes are typically substandard, dangerous and life threatening. The maximum award is \$18,000 per home.

Homebuyer Education - In conjunction with the County, the Housing Division provides a first time homebuyer’s class. The class prepares potential homeowners with information related to the home buying process and affordable housing options available. Staff from City and County Housing divisions prepare course content and provide instruction.

Housing Counseling Program - Designed to identify families who can benefit from counseling through a review of their financial situation to determine appropriate purchasing alternatives. The program is designed to provide housing and counseling services to persons eligible for assistance under HUD programs and the City of Gainesville’s homeownership and rental housing programs.

In FY 2012 funding for outside agencies was reduced by \$353,088 for CDBG and HOME programs. The CACCD decided it was in the best interest not to fund new agencies but continue funding current agencies receiving funds with hopes that when additional funding is available the new agencies may receive grants.



CDBG and HOME grants have no limitation on their use with other private, local, state and federal funds. Each year the City is notified by HUD of funds available for CDBG and HOME programs. For FY 2012, Housing & Community Development expended a total of \$1,501,628 for CDBG and \$1,124,429 for HOME. For FY 2013, CDBG expenditures were \$2,093,314 and HOME expenditures were \$641,262. Figure 1 below illustrates the percentage distribution for the last year between CDBG and HOME grants.

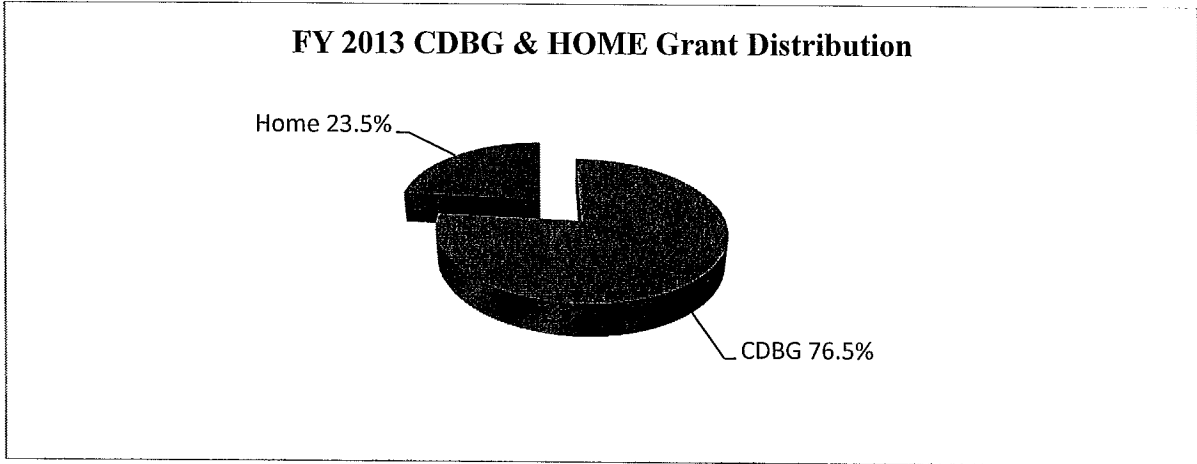


Figure 1: FY 2013 CDBG & HOME Grant Distribution

HCD also reviews ways to leverage CDBG and HOME funds. With the housing market having many foreclosures the last few years, HCD has considered purchasing foreclosed homes with CDBG and HOME funds. However, it was determined that many of the foreclosed homes also required extensive rehabilitation. Additional funds would be needed to purchase and rehabilitate a residential foreclosed house versus performing major renovations on a homeowner's existing house

## ISSUE #1

### Improvements to Annual Maintenance Inspection Process

#### Discussion

The U.S. Department of Housing and Urban Development (HOME Program) requires an annual review based on the amount of funding received and number of assisted units in the project. HCD management developed an annual maintenance policy system after our last review. This process included:

- a windshield inspection conducted based on a random sample equal to 5% of all housing units on the annual maintenance system.
- all inspected housing units that appear to be in disrepair would be referred to Code Enforcement for full inspection.
- a detailed inspection log will be maintained that will include inspections conducted, Code Enforcement follow-up, compliance issues, current status and appropriate dates for each housing unit.

Each year, HCD provides Code Enforcement the property addresses of all rental properties requiring inspection. When completed by Code Enforcement, reports indicating compliance/non-compliance with resolutions are returned to HCD for filing. For individual owner-occupied properties, HCD determines the total number of grant recipients from the past 10 years by project type including rehabilitation, new roofs and down payment assistance. HCD then runs a random sample generated report to determine those properties that will receive a windshield inspection review by HCD staff. Staff then observes each property selected and prepares a form that assesses if it is in compliance and appears to be well maintained. If non-compliance issues are noted, Code Enforcement is notified and additional follow up is done. The windshield inspection form is then filed in HCD.

During our review of the re-inspection process, we found the re-inspection sample was selected by project type which includes all grant types including HOME, CDBG and/or the State Housing Initiative Program (SHIP) funding. For FY 2011, the majority of windshield inspections performed were SHIP recipients. There are two concerns with this approach. First, the report is sorted alphabetically by each category and includes all grant types. This may result in a far greater number of one specific grant type rather than 5% of each grant type. Additionally, because the random numbers are based on the line numbers of the worksheet used to track grant recipients, some properties may continue to be reviewed year after year.

A better methodology would be to develop a sample by grant type rather than by project type. This would not affect the total number of windshield inspections performed but provide a better allocation to ensure all grant types receive a windshield inspection. Additionally, to ensure that some homes do not receive multiple visits while others are not observed, inspections performed on houses in the previous year's inspection process should be eliminated from the project category and reintroduced the following year.

#### Conclusion

The methodology used for windshield inspection ensures that each category type is reviewed, but it does not ensure that grant types are adequately reviewed. Therefore, a disproportionate number of Federal or State grants may be reviewed.

#### Recommendation

We recommend management develop a sampling system that ensures each grant type is fairly represented based on the population of grant types awarded when performing windshield inspections. For instance, 5% of HOME grants and 5% of CDBG grants which may better reflect the agencies we receive grant



funding from rather than by a percentage of project type. Disproportionate samplings of one grant type may under-represent specific grant types or disproportionately represent State versus Federal funding for determining if grant recipients in each funding category adequately maintain properties.

**Management's Response**

## ISSUE #2

### Improved Procedures to Ensure Property Insurance Declarations Are Received

#### Discussion

When a CDBG and/or HOME grant is awarded to a property owner, the client is required to provide proof of continued property insurance. Typically this is submitted by the insurance company as the City continues to have a lien on the property for 10 years. The insurance declaration is required by HUD to be current and documents maintained on file by HCD.

In reviewing the process HCD uses to ensure property insurance declarations are received, HCD staff prepares a log which includes the previous year, current year and subsequent year. Each client name is listed and a check mark to the year indicates the current one on file. Although HCD records indicate a total of 508 clients during the last 10 years who have received CDBG, HOME and SHIP grant funds, we noted that HCD's log only totals 153 clients. This suggests that a significant portion of required property insurance declarations potentially are not on file and may have lapsed. Of the 153 clients included in the log we reviewed, 5 had expired insurance declarations on file and 2 were for property addresses and/or owners that did not span the prior 10 years.

#### Conclusion

HCD does not have a procedure in place which ensures compliance by grant recipients that property insurance continues to be maintained on the property. Additionally, there is no system in place to follow when property insurance may have lapsed to ensure each property continues to be insured. An adequate monitoring system that allows for HCD to follow up with insurers and clients would help to ensure that all properties receiving grants continue to be insured.

#### Recommendation

We recommend management develop a procedure to ensure all HOME & CDBG recipients in the past 10 years are included on a property insurance declaration log that includes at a minimum grant date, type of grant/project, recipient name, property address and expiration date of property insurance declaration. This will allow HCD to monitor and better ensure all grant types utilized by recipients continue to meet the terms of the grant agreement and that the City's investment in the property continues to be protected.

#### Management's Response

## ISSUE #3

### Periodic On-Site Monitoring of Outside Agencies

#### Discussion

HCD has written policies and procedures that outline on-site monitoring of outside agency administrative offices and/or program sites as well as City departments who receive CDBG and/or HOME funding. The type of on-site monitoring performed and the steps necessary to prepare for on-site visits is related to the type and complexity of project activities.

HCD's Federal Grants Administrative Management Policies & Procedures Manual regarding what is typically expected for an on-site monitoring visit states:

- *A random selection of supporting documentation which purports to substantiate or "backup" financial accountability and/or performance information previously reported on CDBG and HOME Program Report form is sufficient.*
- *Program beneficiaries are interviewed or observed receiving specified services.*
- *On-site financial and performance monitoring of each project's source documentation is conducted at the Outer Agency or City department administrative office. Additional monitoring in the fields of finance, accountability and/or performance will be conducted as deemed advisable.*

Additionally, the performance manual continues:

*... if applicable, requests are made for visits to program delivery sites or for interviews with individuals receiving the benefits of the program services. Such monitoring includes, but is not limited to:*

- *Interviewing beneficiaries of the services and/or*
- *Observing the delivery of the services which may include riding in a vehicle, distribution of commodities, observing the process of grant or loan, visit the neighborhood improvement locations.*

Typical records HCD staff would review on-site includes:

- Client eligibility forms.
- Records for type and amount of direct service delivery for clients or groups of clients.
- Records documenting use of vehicles and equipment.
- Statements, invoices and contracts indicating amounts for specified purpose.
- Records documenting adherence to procedures for addressing environmental mitigation.

Additionally, program income would receive additional monitoring if it involves revolving loan funds, real property acquisition, construction contracting, rehabilitation refinancing, etc.

We were unable to review how HCD performs on-site outside agency reviews because these are no longer performed by HCD. Although procedures are in place in HCD's Federal Grants Administrative Management Policies & Procedures of the steps necessary to perform on-site monitoring, this practice has been discontinued. Staff indicated that current outside agencies have been long time grant recipients and because these agencies continue to provide documentation when requested and complete reports a desk review is performed in its place. Staff also indicated that staff reductions have made on-site monitoring difficult to perform.

### **Conclusion**

HCD has not performed an outside agency visit in at least the previous two years. On-site visits by HCD would help to ensure that documentation provided to HCD is accurate and is substantiated. It also would provide an opportunity for HCD to verify payroll funds expended are made to an actual person filling the position and to provide feedback of possible improvements or efficiencies the outside agency should consider. If outside agencies believe an on-site review will not be performed, it may provide an opportunity for an outside agency to become complacent in their compliance.

### **Recommendation**

We recommend management annually select a sample of outside agencies to perform on-site reviews. This will allow additional oversight to better ensure grant funding is used for stated purposes and allow HCD to verify existence of staff, usage of supplies and to observe distribution of benefits such as meals, shelter, etc.

### **Management's Response**

<b>Improved Reconciliation of Housing Program Expenditure Summary Report</b>
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**Discussion**

HCD has several reports prepared for internal and external purposes. In a recent recommendation by the external auditors, in order to ensure year end general ledger totals agreed to final grants received by projects, HCD developed a report to monitor and compare these totals. Previously, HCD did not always close out projects to tie to the City's year end close. In order to ensure there is consistency, HCD management took a proactive step by developing the Housing Program Expenditure Summary Report which is intended to provide summary data from more detailed client files.

When we reviewed the individual client files, we found two clients whose total grants received did not agree to the Housing Program Expenditure Summary Report. Management stated the report was developed mid-year and they expected some errors, but that future reports would agree with the client grants expended.

**Conclusion**

HCD management has taken proactive steps to ensure all forms of reporting agree to the fiscal year client grants expended. However, for the first year of the report, the data did not match to all report platforms for some clients.

**Recommendation**

We recommend management institute a procedure to provide assurance that future Housing Program Expenditure Summary Reports are adequately reviewed in order to provide accurate and consistent data for grants expended for projects and/or clients. This includes verifying data reported is consistent by projects and/or grant funds in both internal and external reports.

**Management's Response**

## ISSUE #5

### Improved Procedures to Ensure Estimates for Work Are Maintained in Property Files

#### **Discussion**

When HCD determines what type of assistance is needed by a client, the Housing Rehabilitation Specialist (HRS) prepares a cost estimate of the work that needs to be done to bring the property to code. The cost estimate is used as the basis to determine grant dollars required and availability. The cost estimates are also used to assist in developing bid proposals for projects.

During our review of client/project files, we noted that HCD provided adequate documentary evidence in the form of narratives or photos of before and after work performed, as well as for any change orders necessary to complete the project. However, we noted that original cost estimates were not always maintained in the file, although we later determined that these documents were filed elsewhere by the HRS. Upon review of the documents, we were able to confirm that the cost estimates were consistent within 10% of the actual costs.

Filing the estimates with the client files allows for a complete record of estimates and actual costs to be maintained in one location by project. The HRS who prepares the cost estimates was a recent hire within the past year of our review and was not aware that these should be maintained in the client/project files. The previous HRS was in that position for over 20 years and there was no formal procedure which indicated this should be maintained in the files. Therefore, when the recently hired HRS assumed responsibility the inclusion of this information was not automatically performed because information may not have been completely transferred. In addition, this was not included in the procedures manual.

#### **Conclusion**

Cost estimates were not always included in the client/project files because of turnover and the unfamiliarity of the need for its inclusion. The recently retired HRS had the institutional knowledge, however that item was not included in the written procedures for a newly hired HRS to be aware.

#### **Recommendation**

Although the HRS includes the cost estimate now in each file, we recommend management include an updated step in the procedures to ensure this is included. Additionally, the procedures manual should be reviewed on an annual basis by staff to ensure all information is included and updated to allow for a seamless transfer in the event of staffing changes.

#### **Management's Response**