


MEMORANDUM

TO: Michael Cowin, Assistant City Manager

FROM: Bernita Demery, Director of Financial Services 

DATE: August 22, 2017

SUBJECT: Housing and Urban Development Audit Update

On August 16-18, 2017, the regional representative for Housing and Urban Development (HUD) completed a tri-annual monitoring audit on the City's Community Development Block Grant (CDBG) housing program for the 2013-14 program year. In preparation for the audit, several meetings were conducted between Financial Services and the Housing Division of Community Development to discuss and address areas of concern and potential findings that have been observed. The following areas of note were concerns for Financial Services:

- **Payroll Setup and Allocation of Housing Division Staff to Grant Expenses**
 - Currently, Housing payroll is not set up to directly reflect time spent on activities from the grant annual action plan. Improper expensing of payroll salaries to grants is a common finding during an audit of the Housing Division grants.
 - Financial Services' recommendation was to move toward using project ledger as a proactive measure to reduce the risk of a finding. Housing Division decided to use handwritten timesheets as a method of recording direct time related to grant activity. There was no action on preventative measures before the audit, due to time constraints within the Housing Division.
- **Lack of Communication**
 - One area selected for monitoring was the activities in conjunction with Economic Development's Small Business Plan competition. When gathering documentation, Housing Division reported that the requested files for monitoring were not available or ill kept. Specifically, the Crossfit and 3rd Degree Signs files were reported as only having one page and that all the necessary records were not kept. The files were eventually found and the information was compiled for the auditors after going back to the same source for documentation. The only items missing from the files were the monitoring of expenses of the small business competition recipients.

Post-Audit Concerns/Findings

Concern 1: Policies and Procedures were incomplete on the eligibility of the applicant for the small business competition.

- Housing allowed Economic Development to manage grant money. There should be a policy in place along with contractual obligations between the departments. Housing should also monitor the recipients of any funds awarded from their grant.

Concern 2: Housing should have a workflow document describing all procedures prior to activity being recorded in IDIS.

- Internal Controls and Procedures policies should be in place for time and attendance, program income, sub recipients, or any other program activity. Housing referred the auditors to the City policies and the Financial Services grant policy. The auditors expressed that the program administrators needed to create their own policies and procedures, which need to be reviewed and revised on a regular basis.
- Additionally, Financial Services plans to revise their grant policy to include targeted language based on the needs of each department within the City, including the Housing grant program.

Finding 1: Housing Money Not Monitored

- Crossfit and 3rd Degree Signs were not held accountable for the money received from the Housing Division's CDBG Grant, specifically no monitoring of allowable costs or verification of expenses for business-related activities. Economic Development determined eligibility for meeting national objectives and low/moderate income. There was no proof of low/moderate income verification available and the auditors had to determine the national objective that was met.
- The auditors instructed the City to go to the business owners and require submission of bank statements or verification of expenses meeting eligibility requirements. Any amounts that cannot be verified as eligible expenses require that the grant money be returned.
- After determining that the two businesses selected did not meet requirements, HUD audited all six recipients, totaling \$90,000 in grant expenses to be verified.

Finding 2: Support Documentation for Salaries and Wages Insufficient

- Housing is currently tracking staff's time through handwritten timesheets. This was determined not to be sufficient. Direct time spent on activities needs to be recorded in the City's ERP system for ease in reporting employee time based on grant and activity.
- Financial Services will assist with grant salary documentation through the implementation of project ledger. While there was a lack of action on this measure previously. Substantial progress in enacting this feature in Munis is needed as a response to the finding.

Finding 3: Single Audits Not Monitored

- Per A-133 Uniform Guidance, all grant recipients of \$750,000 or more must be audited annually. The Housing Division must verify the single audit participation of all sub recipients of CDBG or HOME grant funds every year. This is currently not being completed by the Housing Division.

cc: Thomas Weitnauer, Interim Director of Community Development