



GARLAND

INTERNAL AUDIT

Community Development Block Grants (CDBG) Audit

December 14, 2016

Report 201611

City Auditor:

Jed Johnson, CIA, CGAP

Major Contributor:

Marla Hamilton, CIA
Staff Auditor

Jonna Murphy, CGAP
Staff Auditor

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Overall Conclusion

The reconciliation performed by Internal Audit (IA) confirmed that information reported to City Council was generally correct and all funds were accounted for. However information could be reported in a clearer, more concise way to help Council make more informed decisions. Procedural weaknesses in efficiency and tracking were noted.

Management was also provided with an additional Opportunity for Improvement regarding an overpayment to a vendor. This was not considered significant to the objectives of the audit, but warrant the attention of Management. Consequently, it does not appear in this report.

Authorization

We have conducted an audit of the Community Development Block Grants (CDBG) administered by the Housing and Community Services Department. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and was completed in response to a request by the Garland City Council.

Objectives

The objectives of the audit include the following:

Objective A: Verify the reliability and integrity of Grant fund/expenditure reporting. Ensure all funds are accounted for.

Objective B: Evaluate the program to ensure whether operations are being carried out in accordance with HUD rules and regulations, City Directives, and City Council decisions.

Scope and Methodology

IA 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.

Our scope is October 1, 2013 to August 31, 2016.

To adequately address the audit objectives and to describe the scope of our work on internal controls, IA performed the following:

- Interviewed staff members to walk through the various processes (Obj. A & B)

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- Reviewed source contracts, agreements, etc. of CDBG Public Service funds (Obj. A & B)
 - Reviewed source documentation for CDBG Projects, such as Minor Home Repair, Single Family Housing Rehabilitation, etc. (Obj. A & B)
 - Obtained information related to the breakdown of CDBG Administration costs (Obj. A)
 - Obtained and reviewed information from HUD related to allocation, coding, reporting, monitoring, (re)distribution of funds and potential recapture of funds (Obj. A & B)
 - Performed independent reconciliations of data and compared to HUD data, numbers reported to City Council, source documents, etc. (Obj. A)
 - Performed a 5-source reconciliation over a 3-year period between the HUD system, Finance system (directly), reports from the Grants Administrator in Finance, information reported to council, and Council-approved allocations (Obj. A)
 - Reviewed compliance with HUD regulations, such as, but not limited to, allowable expenses, advertisement of use of funds and related comment periods, approval by City Council, and timeliness testing (Obj. B)
 - Performed testing of samples of case files for projects funded by Community Development Block Grants and ensure compliance eligibility of participants and projects, environmental review, completion of work within scope and limits, and tracking of revolving loan payments (Obj. B)
 - Reviewed application for Public Service funding, selection of projects and granting of funds, and desk and site review process (Obj. B)

To ensure data reliability, several sources of information were reconciled and compared, including the HUD IDIS system, the City's finance system, the Department's payment processing and tracking systems, and the paper files. As a result of our testing, IA determined that all of the above data was sufficiently reliable for the purposes of this report.

Based on the audit work performed, any deficiencies in internal control that are significant within the context of the audit objectives are stated in the Opportunities for Improvement Section on page 7.

Background

Housing and Community Services (HCS) mission is “[t]o partner with the community to coordinate neighborhood initiatives. Housing initiatives are responsible for improving the economic aspects of neighborhoods through affordable homeownership and rehabilitation strategies¹.” This is accomplished through a wide variety of programs operated through Federal grants.

One of the programs operated by HCS is the Community Development Block Grant (CDBG) program which is issued by the Department of Housing and Urban Development (HUD). This

program grew out of eight Federal grant programs which were consolidated in 1974, with focus on meeting one of three national objectives:²

1. Benefit low- and moderate-income (LMI) persons. Low income is defined as 50% of the area median-income as established by HUD, and moderate-income is less than 80% but greater than 50%, and vary based on family size.
2. Aid in the prevention or elimination of slums or blight.
3. Meet a need having a particular urgency (generally to alleviate emergency conditions such as natural disasters when no other funding is available).

Objective 1, aiding LMI households, is generally considered the primary objective because HUD statutes require that 70% of CDBG funds are expended to benefit LMI persons.²

Garland is an “entitlement city,” which means the levels of grant funding are independently determined by HUD based on their algorithms, and granted to the City automatically following the submission of the City’s Annual Action Plan to HUD² which details the City’s proposed use of the CDBG funds. The City is also required to submit a Consolidated Plan every three to five years which outlines, in addition to proposed activities, the City’s needs, resources, and priorities,² as well as a Consolidated Annual Performance and Evaluation Report (CAPER) in December of each year which outlines achievements of the year.² Finally, the City must meet minimum Citizen Participation requirements which ensure the community is involved in determining planned activities. These are outlined in the Citizen Participation Plan.²

Once the Annual Action Plan has been approved by HUD, the City is extended a line of credit. In November of 2015, the City of Garland was granted approximately \$1.8 million for the CDBG line of credit for the year 2015-2016.³ However the City is not given these funds up front, but rather on a reimbursement basis after the funds are spent. Federal requirements further state that the City may not request an additional “draw down” of funds, a reimbursement from HUD against our line of credit, without first expending any income we have received from the programs in operation with the HUD funds.

The City has up to three years to obligate funds, or assign them to a project, and then up to five years to expend the funds, resulting in a maximum 8-year window in which to use the funds.⁴ If funds are not used within this window, they will be recaptured by HUD. The result is that funds from a particular HUD program year may be spent across several of the City’s fiscal years.

In the beginning of August, HUD performs a “timeliness test,” at which point the City’s CDBG balance must not exceed 1.5 times that year’s grant allocation, or we may be penalized. At the time of the last timeliness test we were at 1.25 times the annual allocation, without the drawdown of any new funds.^{5,6}

CDBG funds are currently used to operate two types of programs and administration for the programs:⁷

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1. Public Services – These programs are applied for at the beginning of the year by entities throughout the Garland area. They must be non-profit, and meet one of the national objectives listed above. Up to 15% of that year’s CDBG funds may be spent on public services. City Council determines what allocations applicants will receive. Applicants report achievements and expenditures to HCS, who reviews the documentation, reimburses expenditures, and reports achievement outcomes to HUD.
 2. Projects – These are projects performed by the City of Garland. Funds are allocated to Code Compliance and the Street Department, as well as to three programs administered by HCS:
 - a. Minor Home Repair – emergency grants for repair of houses of low- and very low-income elderly individuals which do not have to be repaid. Grants for this program are capped at \$5,000;
 - b. Great Homes Project – purchase of foreclosed, vacant, and abandoned properties, which are rehabilitated and resold;
 - c. Single-Family Rehabilitation – loans are made to low- and very low-income households for compliance with codes, State and Federal regulations regarding lead-based paint, and upgrading deteriorating housing. All or a portion of this is repaid based on the income of the family receiving the loan. Projects are capped at \$25,000.City Council determines the funding level for each of the projects.
 3. Administration – Funds used for administration and planning of programs and the grant as a whole, including management, oversight, coordination, and staff salaries (in whole or in part depending on duties). For the CDBG grant, administration costs in any given year may not exceed 20% of the sum of grant funds for that year plus any program income received for that year.²

In January of 2016, HUD changed the way expenditures were tracked, allocated, and recaptured. Before this date, funds were operated on a first-in, first-out basis, where the oldest funds were expended first, regardless of project. However the Office of the Inspector General determined this did not comply with Federal standards, and the accounting method was changed.⁸ Although this change took effect in January 2016,⁹ it retroactively affected funds dating back to the beginning of the HUD program year, October 1, 2015. This change effectively split the previous four years into separate “pots of funding” which must be expended with projects and activities set up in those particular grant years.⁸ Therefore at any given time, funds from several HUD program years may be in use.

In the past, HCS collected any funds to be re-obligated and included these amounts along with the new funds for the grant program year. This sum of funds was taken to City Council and the various projects and applicants were awarded amounts based on all funds available.⁸ Oldest funds were expended first to prevent recapture by HUD.

However the change in guidance resulted in the City of Garland having approximately five-hundred thousand dollars at risk for recapture in summer 2017 for an under-performing project from the year 2013-2014. While previously the funds as “first in” could have been expended on another project, under the new guidance the funds must now be officially re-obligated before they can be expended, because they must be spent on a project set up for that grant year. Due to the money on hand for the timeliness test, and the three-year window in which to obligate funds, this money must be obligated by October 2016 and spent by June 2017⁶ to comply with the next timeliness test and to protect our ability to receive future funds from HUD.

Sources:

1. City of Garland 2015-16 Annual Operating Budget
2. Basically CDBG for Entitlements, <https://www.hudexchange.info/resource/19/basically-cdbg-training-guidebook-and-slides/>, May 2014, accessed 8/18/2016
3. Letter from U.S. Department of Housing and Urban Development, received 18 November 2015
4. June 2016 HUD Compliance Supplement: Community Development Block Grants
5. Email from Senior CPD Representative, HUD Office of Community Planning and Development, "Garland CDBG - Timely Expenditure of Funds," sent 4/12/16
6. Neighborhood Services Administrator, Housing and Community Services
7. City Council Resolutions for Approval for Consolidated Plan, Resolution Numbers: 10198, 10142, 10103
8. Guidance for ESG Recipients: Grant Based Accounting
9. Email from Senior CPD Representative, HUD Office of Community Planning and Development, "New Guidance – Managing ESG in IDIS," sent 1/12/16

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

OPPORTUNITY FOR IMPROVEMENT # 1 – Policy for Council Approval (Obj. A & B)	
CONDITION (THE WAY IT IS)	There is not currently a City policy regarding what level of oversight is required for grant funding to integrate HUD and City regulations and policies.
CRITERIA (THE WAY IT SHOULD BE)	<p>A clear policy should be put in place outlining what level of authority required for which actions, and within what timelines they should be completed.</p> <p>This will provide a clear reference for any issues that arise, improve internal controls, and guide new employees. This will also provide a business continuity plan in the event of disaster, retirement, etc.</p>
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	<p>Policies were not developed in writing as they were not required by the previous management.</p> <p>Additionally, grant programs were operated based on HUD regulations; City regulations not considered.</p>
EFFECT (SO WHAT?)	<p>Misperceptions and assumptions led to confusion about which items should be taken to City Council, and which were not required.</p> <p>This resulted in the current audit, as well as many hours spent reconciling, reviewing, and discussing with all levels of City management.</p>
RECOMMENDATION	<p>Management should work with City Council to develop a policy which clearly defines which decisions are to be made by City management, and which require City Council approval.</p> <p>The policy should address, but is not limited to:</p> <ul style="list-style-type: none"> • Annual Action Plan, Consolidated Plan, and material changes; • Repurposing of funds;

	<ul style="list-style-type: none">• Increases in HUD grant amounts;• Thresholds for all changes.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	Secure consultant services to evaluate current programs, policies and procedures, staffing and system to implement HUD programs.
IMPLEMENTATION DATE	February 2017

**OPPORTUNITY FOR IMPROVEMENT # 2 – Methodology for Reporting to Council
(Obj. A & B)**

<p align="center">CONDITION (THE WAY IT IS)</p>	<p>HCS provides reports to City Council that gives detailed information on each entity requesting CDBG grant funding. These reports provide data regarding previous years' allocation amounts and estimates of future expenditures. The information is presented in a format based on program year which could include multiple fiscal years of expenditures.</p> <p>The information provided by HCS does not include:</p> <ul style="list-style-type: none"> • Actual expenditures by fiscal years. • Earmarked funds for specific projects. • Previous program years' actual expended funds. <p>In addition, HCS does not report to Council periodically, but rather annually.</p> <p>Note: Additional information on program years vs. fiscal years is available in the Background.</p>
<p align="center">CRITERIA (THE WAY IT SHOULD BE)</p>	<p>Information reported to Council should include program year and fiscal year expenditures, earmarked funds and previous years' actual expenditures as well as allocation amounts. In addition, information should be reported to Council on a more frequent basis.</p>
<p align="center">CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)</p>	<p>HCS had not been asked to report information to Council in this way in the past. The information which was reported was presented annually for new program year allocations, and combined program and fiscal year information.</p> <p>Until January 2016, HUD did not track funds by program year, but instead used First In First Out accounting which allowed for the spending of oldest funds first, regardless of project.</p>
<p align="center">EFFECT (SO WHAT?)</p>	<p>City Council did not have a clear understanding of the fund balance and funds that should be reprogrammed for the next program year.</p>
<p align="center">RECOMMENDATION</p>	<p>Management should ensure that the following are included when reporting to City Council:</p>

	<ul style="list-style-type: none"> • Actual expenditures by fiscal years. • Earmarked funds for specific projects. • Previous years' actual expended funds. <p>Additionally, reports to Council should be performed on a more frequent basis.</p>
MANAGEMENT RESPONSE	Concur
ACTION PLAN	Secure consultant services to evaluate current programs, policies and procedures, staffing and system to implement HUD programs.
IMPLEMENTATION DATE	February 2017

OPPORTUNITY FOR IMPROVEMENT # 3 – Program Inefficiencies in Processing and Tracking (Obj. B)

<p align="center">CONDITION (THE WAY IT IS)</p>	<p>Overall, operation of programs by HCS was inconsistently completed and tracked. Several errors (which did not affect eligibility) were noted (please refer to Exhibit A for sampling methodology, and Exhibit B for a more detailed breakdown):</p> <ul style="list-style-type: none"> • Eligibility determination was completed, but lacked follow through on an item which could have affected eligibility, for 9 of 19 files sampled (47%). However further information was obtained at the time of the audit, and all clients and properties were found to meet eligibility requirements. • Income calculation errors were noted in two additional files (16%). • Average time to process an application is 38 working days. <p>Additional inefficiencies were noted:</p> <ul style="list-style-type: none"> • Duplicate information is required on multiple forms and in multiple formats (ex: deposit records stored on paper in binders and electronically, applicant eligibility stored multiple places in file, income calculations completed on Application Summary, Income Calculation Worksheet, and Underwriting Worksheet). • Contracts have clauses that are inappropriate for the project or conflicting with other contracts in the same file. • It is difficult to track the status of the application/project and reasons for delays. • Difficult to locate all information for a case. • For some documents, electronic storage backed up by IT is not being used (ex: application, eligibility, environmental reviews). • Electronic storage utilized is often stored in individual drives, and while backed up, is not accessible to all staff (ex: nonpayment letters).
<p align="center">CRITERIA (THE WAY IT SHOULD BE)</p>	<p>All documentation for a file should be obtained and processed timely, efficiently, and securely. Tracking systems should enable staff to be aware of the status of a file.</p>
<p align="center">CAUSE</p>	<ul style="list-style-type: none"> • Multiple systems in use and required by HCS. • Reconciliation is being performed manually.

(DIFFERENCE BETWEEN CONDITION & CRITERIA)	<ul style="list-style-type: none"> • Each person is handling their own area independently which allows files to "fall through cracks" when moving from step to step in processing. • Forms being utilized make it difficult to determine if all stages completed, or are necessary. At times multiple versions of the same forms are in use.
EFFECT (SO WHAT?)	The current process creates confusion, inconsistent processing, and unnecessary errors, which increase the risk of noncompliance with federal grant requirements.
RECOMMENDATION	<p>Management should:</p> <ul style="list-style-type: none"> • Implement a workflow system for tracking the status of all projects; • Utilize electronic storage accessible by all necessary personnel for case documentation; • Review forms, contracts, and processes to remove contradictions, duplications, and gaps; • Consider using a waiting list function which documents reasons for denial/delay of applications.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	Secure consultant services to evaluate current programs, policies and procedures, staffing and system to implement HUD programs.
IMPLEMENTATION DATE	February 2017

OPPORTUNITY FOR IMPROVEMENT # 4 – Monthly Draws and Reconciliations (Obj. A)	
CONDITION (THE WAY IT IS)	<p>A. IA reviewed the timeliness of draws processed and determined that draws are not performed monthly. Refer to Exhibit C for detail on when draws were performed.</p> <p>B. Program Administration Funds are allocated to the department at 20% of total CDBG Funding for the program year. During IA’s reconciliation of funds, IA noted that \$35,819.09 was returned to the City’s Line of Credit with the Grant during the 2014/2015 program year. This was due to HCS exceeding its 20% allocation for Program Administration for the 2014/2015 program year.</p>
CRITERIA (THE WAY IT SHOULD BE)	A & B. Draws should be performed monthly to allow HCS to track and reconcile amounts paid to grant recipients and received from the Grant Fund.
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	<p>A. HCS processed draws only on an as needed basis.</p> <p>B. Funds were retroactively drawn on 2013/2014 program year for Grand Administration. This was a closed account in the IDIS system. The over-expended Program Administration funds were repaid by the City from non-federal funds. HUD returned the repaid funds to the City’s line of credit for the grant.</p>
EFFECT (SO WHAT?)	<p>A. Payments to grant recipients are processed before the City is reimbursed from the Grant Funds. This results in an interruptions in the cash collection cycle.</p> <p>B. Retroactively drawing funds from the closed 2013/2014 program year account in IDIS resulted in HCS exceeding its 20% allocation for Program Administration for the 2014/2015 program year.</p>
RECOMMENDATION	<p>Management should ensure:</p> <p>A. Funds are drawn from the IDIS system on a monthly basis.</p> <p>B. Monthly reconciliations are performed between the general ledger and the IDIS system.</p>

MANAGEMENT RESPONSE	Concur
ACTION PLAN	Direct staff to begin monthly draws
IMPLEMENTATION DATE	Immediately

**OPPORTUNITY FOR IMPROVEMENT # 5 – Public Service Requirements and Review
(Obj. B)**

<p align="center">CONDITION (THE WAY IT IS)</p>	<p>Overall, the Public Services portion of the CDBG grant are being operated in accordance with HUD requirements and City Council’s wishes. The following opportunities for improvement were noted:</p> <ul style="list-style-type: none"> • Subrecipient requirements exist which are not detailed in the Subrecipient Guidebook; • The Subrecipient Guidebook contains information from previous years which is outdated; • Vetting of applicants is not detailed; • Monitoring is not done on a schedule based on the risk of subrecipients.
<p align="center">CRITERIA (THE WAY IT SHOULD BE)</p>	<ul style="list-style-type: none"> • All requirements should be up to date and clearly listed in the Subrecipient Guidebook to make the application process more equitable; • HCS staff are considered experts regarding the grant requirements, and should provide Council with all necessary and pertinent information to allow them to make an informed decision; • Monitoring should happen on a scheduled basis in order of risk to ensure the highest priority of subrecipients are monitored first.
<p align="center">CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)</p>	<ul style="list-style-type: none"> • The yearly review of the Subrecipient Guidebook was not thorough enough to catch all outdated information; • According to HCS, they did not feel they were permitted to enact more stringent vetting requirements; • Previously, there were fewer subrecipients and staff attempted to monitor all of them in a year; therefore, according to HCS, a specific plan was not needed.
<p align="center">EFFECT (SO WHAT?)</p>	<ul style="list-style-type: none"> • Public Service applicants will be more successful in their applications, and the process will be more equitable, if all requirements are clearly enumerated and provided; • Inequities in the application process could open the City up to lawsuits by companies that were denied funding; • Public Services that are not vetted properly increase the risk of disallowed program costs for the City.

	<ul style="list-style-type: none"> • Failure to develop a monitoring plan may result in the highest risk Public Services not being monitored.
RECOMMENDATION	<p>Management should ensure that:</p> <ul style="list-style-type: none"> • All requirements for the application process are enumerated in the Subrecipient Guidebook; • The Subrecipient Guidebook should be reviewed and updated as necessary before the application window opens; • Criteria by which the applicants will be judged is explained clearly in the guidebook and has corresponding fields in the application where possible; • A vetting process is developed, and the results of this process are communicated with Council as part of the granting of Public Service funds; <p>Management should additionally consider developing tailored applications for City departments, or labeling sections of the application that do not need to be completed by City departments, rather than leaving them blank.</p>
MANAGEMENT RESPONSE	Concur
ACTION PLAN	Secure consultant services to evaluate current programs, policies and procedures, staffing and system to implement HUD programs.
IMPLEMENTATION DATE	February 2017

OPPORTUNITY FOR IMPROVEMENT # 6 – ADC with No Final Project (Obj. B)	
CONDITION (THE WAY IT IS)	Staff salary was being charged as an Activity Delivery Cost (ADC) with no corresponding project that had reached fruition.
CRITERIA (THE WAY IT SHOULD BE)	HUD CPD 13-07 states: "A grantee must be aware of the risk associated with initiating a project that does not materialize or reach fruition...In such cases, the incomplete activity will most likely be determined ineligible and the staff costs disallowed or possibly considered general administrative costs."
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	<p>HUD does not consider a project complete until it has been purchased, improved, and resold to someone of low-income. Often staff time is spent on a project which falls through, or takes multiple years to complete.</p> <p>HCS was unaware of the HUD guidance requiring costs to have a final project completed in order to be considered Activity Delivery Costs (ADC). Note: once informed of the HUD guidance, the Grant Administrator immediately took steps to correct staff time where needed.</p>
EFFECT (SO WHAT?)	<p>If a final project is not realized, staff time charged as ADC is considered disallowed.</p> <p>Staff time can be charged as a general administrative cost, but any costs exceeding the 20 percent program limitation are also considered disallowed.</p> <p>Disallowed costs must be repaid to the CDBG line-of-credit with non-federal funds.</p>
RECOMMENDATION	Management should ensure staff time should be charged as a general administrative cost until a project reaches fruition, and then moved to ADC.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	Direct staff to implement
IMPLEMENTATION DATE	Immediately

OPPORTUNITY FOR IMPROVEMENT # 7 – Requisitions for Orders \$3k > \$5k (Obj. B)

CONDITION (THE WAY IT IS)	Requisitions are not being entered for Minor Home Repair grants that are over \$3,000. Note: Minor Home Repair grants are capped at \$5,000.
CRITERIA (THE WAY IT SHOULD BE)	Purchasing Directive States: Section 4.3 "A requisition must be entered in the Finance System by the requesting department to initiate the purchasing process for purchases over \$3,000." Section 4.5.2.3 "Within five business days after emergency arrangements have been made, the requesting department prepares, enters, and approves a requisition in the Finance System and forwards the Purchase Award Recommendation to the Purchasing Department for processing."
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	This is not required by HUD, and was therefore not considered.
EFFECT (SO WHAT?)	Protection for the City regarding favoritism and appearance of conflict of interest, as well as enhancing accountability for HCS. Assistance from the Purchasing Department to bring in multiple contractors to increase competition and reduce costs.
RECOMMENDATION	Management should begin entering requisitions for all projects over \$3,000 as required by the City's Purchasing Directive.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	Conform to Purchasing Directive
IMPLEMENTATION DATE	Immediately

**OPPORTUNITY FOR IMPROVEMENT # 8 – Public Service Outcomes Reviewed for Location
(Obj. B)**

<p align="center">CONDITION (THE WAY IT IS)</p>	<p>Monthly outcomes for Public Services that serve areas larger than the City of Garland are not being reviewed to ensure the outcomes reported to HUD are for the City only.</p> <ul style="list-style-type: none"> • For one Public Service sampled, the outcomes reported for this year include non-Garland residents. • IA was unable to reconcile one Public Service due to legibility. <p>IA notes that the payments to the Public Service subrecipients are for Garland residents only; no issues were noted during the financial reconciliation.</p>
<p align="center">CRITERIA (THE WAY IT SHOULD BE)</p>	<p>The desk review should include a detailed review of all documentation provided to ensure that payments and outcomes are correct.</p>
<p align="center">CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)</p>	<p>Information was being entered into the HUD system based on the summary sheet completed, and was not reconciled against the detailed information provided.</p> <p>Information scanned into the electronic filing system was not reviewed for legibility before the original documents were destroyed.</p>
<p align="center">EFFECT (SO WHAT?)</p>	<p>Outcomes reported to HUD for the City of Garland could be inflated.</p> <p>Additionally, some organizations are leveraging CDBG funds from other municipalities to serve their citizens (ex: City of Mesquite) and outcomes could be duplicated between the two municipalities when reporting to HUD.</p>
<p align="center">RECOMMENDATION</p>	<p>Management should ensure that the desk review for each subrecipient includes review of detail provided to ensure the summary sheet is correct.</p> <p>Legibility of information stored electronically should be verified before the original documentation is destroyed.</p>
<p align="center">MANAGEMENT RESPONSE</p>	<p>Concur</p>

ACTION PLAN	Secure consultant services to evaluate current programs, policies and procedures, staffing and system to implement HUD programs.
IMPLEMENTATION DATE	February 2017

Exhibit A – Sampling Methodology

HCS Operated Projects

A list of expenditures for CDBG funding was pulled from the City's finance system. Based on the addresses associated with these expenditures, IA identified a population of 42 Single Family Rehabilitation projects, 43 Minor Home Repair Grant projects, and 2 GREAT Homes projects were identified. Of these, 10 (23.8%) Rehab files, 7 (16%) Minor Home Repair files, and 2 (100%) GREAT Homes files were judgmentally selected. In total, 19 of 87 files (21.8%) were sampled.

Public Services

Overall, 10 of 60 subrecipients for CDBG Public Service funding were judgmentally selected (17%). These were selected as follows:

- Program year 2016/17: 4 of 26 applications (15%)*;
- Program year 2015/16: 4 of 17 subrecipients (24%);
- Program year 2014/15: 2 of 17 subrecipients (12%);
- Testing was not completed on 13/14 files.

*contracts had been awarded at the time of sampling, but had not yet begun. Therefore only the application process and documentation was examined for these files.

Exhibit B – Detail for Opportunity for Improvement # 3 – Inefficiencies in Processing and Tracking

Reason	Single Family Rehab	% Rehab Sample	Minor Home Repair	% Minor Sample	GREAT Homes	% GREAT Homes Sample	Total Sample	% Total Sample
Incomplete Eligibility Determination	4	40%	4	57%	1	50%	9	47%
Follow up on Income	1	10%	0	0%	0	0%	1	5%
Follow up on Household	0	0%	4	57%	0	0%	4	21%
Credit Score	1	10%	0	0%	0	0%	1	5%
Delinquent Tax	1	10%	0	0%	0	0%	1	5%
Historic Verification	1	10%	0	0%	1	50%	2	11%
Income Calculation Errors*	2	20%	0	0%	1	0.5	3	16%
Used Net (Rather than Gross) Wages	0	0%	0	0%	1	0.5	1	5%
IA Unable to Replicate Calculation	2	20%	0	0%	0	0	2	11%
Delays in Processing - Average Working Days	69.1		11.9		5.0		38.0	

* Several items listed under Incomplete Eligibility Determination can be included as Income Calculation Errors; however these were excluded from Income Calculation Errors so as not to inflate the number of errors noted

Exhibit C – Detail for Opportunity for Improvement # 4 – Monthly Draws and Reconciliations

Month	FY 2014	FY 2015	FY 2016	Notes
Oct	-	-	\$37,342.21	(1)
Nov	-	-	\$(89,482.98)	
Dec	-	\$(41,188.72)	\$(2,495.32)	
Jan	-	-	\$35,819.09	(2)
Feb	\$(160,364.99)	\$(302,085.73)	\$(302,331.76)	
Mar	-	\$(14,930.88)	-	
Apr	\$(160,807.93)	\$(332,468.43)	-	
May	\$(49,935.26)	-	\$(776,702.41)	
Jun	\$(58,247.29)	-	-	
Jul	-	\$(747,477.98)	-	
Aug	\$(856,768.78)	-	-	(3)
Sep	\$(196,556.57)	\$(297,713.04)	-	

Notes:

- (1) Corrections were made to previous month funding.
- (2) Funds were returned to the City's Line of Credit with the Grant.
- (3) Information presented is as of August 2016.