



City of Compton, Compton, CA

Neighborhood Stabilization Programs 1 and 3

**Office of Audit, Region 9
Los Angeles, CA**

**Audit Report Number: 2021-LA-1001
October 27, 2020**





OFFICE OF INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

To: Rufus Washington, Director, Office of Community Planning and Development,
Los Angeles, CA, 9DD

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: The City of Compton, Compton, CA, Did Not Always Administer Neighborhood
Stabilization Program Funds in Compliance With Procedures and Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of our review of the City of Compton's Neighborhood Stabilization Programs 1 and 3.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.

Office of Audit (Region 9)

300 North Los Angeles Street, Suite 4070, Los Angeles, CA, 90012
Phone (213) 894-8016, Fax (213) 894-8115

Visit the Office of Inspector General website at <https://www.hudoig.gov>.



Audit Report Number: 2021-LA-1001

Date: October 27, 2020

**The City of Compton, Compton, CA, Did Not Always Administer
Neighborhood Stabilization Program Funds in Compliance With Procedures
and Regulations**

Highlights

What We Audited and Why

We audited the City of Compton's Neighborhood Stabilization Programs (NSP) 1 and 3 due to a referral made by our Office of Investigation because of concerns related to ongoing issues at the City and complaints received about the City's administration of U.S. Department of Housing and Urban Development (HUD) funds. In addition, HUD's Office of Community Planning and Development rated the City as high risk for administering program funds in fiscal year 2018. Our audit objective was to determine whether the City administered NSP1 and NSP3 funds in compliance with its own procedures and HUD regulations.

What We Found

The City did not (1) maintain procurement documents for acquisition and rehabilitation services and consultant services to show fair and open competition at a reasonable price, (2) always disburse program expenses in compliance with its own procedures and HUD regulations, and (3) submit the required reports to HUD on time and post HUD quarterly performance reports on its website. These issues occurred because the City did not implement its procurement controls. In addition, the City experienced high staff turnover, which did not allow it to administer these programs in compliance with HUD regulations. As a result, the City did not give vendors the opportunity to bid in fair and open competition for the services needed in the targeted areas. Also, the City disbursed a total of \$272,206 in questioned program expenses. In addition, the City's late submission of required reports to HUD and lack of posting performance reports on its website prevented HUD, the general public, government entities, and other stakeholders from knowing the progress of its program-funded projects and activities.

What We Recommend

We recommend that HUD require the City to (1) implement procurement controls to maintain complete procurement documents, (2) provide adequate documents to support \$270,656 in program expenses, and (3) submit future required reports to HUD on time and post the missing and future HUD quarterly performance reports on its website.

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Background and Objective

The City of Compton was officially incorporated on May 11, 1888. The City's elected officials include the mayor, four city council members, a city attorney, a city treasurer, and a city clerk. The City's administration is comprised of a city manager and two assistant city managers.

The Neighborhood Stabilization Program (NSP) provides assistance to redevelop abandoned and foreclosed homes and residential properties to return the properties to productive use or make them available for redevelopment purposes. There are five eligible uses of program funds: establishing financing mechanisms for the purchase of foreclosed homes, purchasing and rehabilitating abandoned or foreclosed homes, land banking foreclosed homes, demolishing blighted structures, and redeveloping vacant or demolished property.

Congress appropriated \$4 billion in NSP1 funds to 307 State and local governments on a formula basis. Section 2301(b) of the Housing and Economic Recovery Act of 2008 established NSP1. The U.S. Department of Housing and Urban Development (HUD) awarded the City more than \$3.2 million in NSP1 funds on March 16, 2009. Congress appropriated an additional \$1 billion in NSP3 funds on a formula basis to 270 State and local governments. Section 1497, based on the Wall Street Reform and Consumer Protection Act of 2010, also known as the Dodd-Frank Act, established NSP3. HUD awarded the City more than \$1.4 million in NSP3 funds on March 9, 2011.

At the start of NSP1 and NSP3, the City's Community Redevelopment Agency was responsible for administering the program funds. However, the City's Successor Agency took over the programs after the Community Redevelopment Agency was dissolved in 2012. Currently, the City's Grants Division oversees these programs. The mission of the City's Grants Division is to secure, manage, and administer local, State, and Federal grants. The Grants Division is responsible for securing grant funds and providing grant-related support to City departments and nonprofits.

Our audit objective was to determine whether the City administered NSP1 and NSP3 funds in compliance with its own procedures and HUD regulations.

Results of Audit

Finding 1: The City Did Not Maintain Procurement Documents in Compliance With Its Own Procedures and HUD Regulations

The City did not maintain complete procurement documents related to property acquisition and rehabilitation services and consultant services for NSP1 and NSP3 in compliance with its own procedures and HUD regulations. We attributed this condition to the City not implementing its controls over maintaining complete procurement documents for program-funded services. As a result, the City did not give vendors the opportunity to bid in a fair and open competition at a reasonable price for services related to the revitalization of targeted neighborhoods.

The City Did Not Show Evidence of Fair and Open Competition at a Reasonable Price

The City did not maintain complete procurement documents for NSP1 and NSP3 property acquisition and rehabilitation services and consultant services. Of the 13 procured acquisition and rehabilitation services and consulting services files reviewed, none of the procurement files contain request for proposal announcements, procurement logs and rating sheets, price or cost analyses, and award letters. Without these procurement documents, the City did not show evidence of fair and open competition at a reasonable price for these services related to the revitalization of targeted neighborhoods. According to HUD regulations at 24 CFR (Code of Federal Regulations) 85.36(b)(9) and the City's procurement manual, Section X, the City will maintain records sufficient to detail the significant history of a procurement. These records will include but are not limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price (appendix C). Also, HUD regulations at 24 CFR 85.36(f)(1) state that the City must perform a cost or price analysis in connection with every procurement action, including contract modifications (appendix C). In addition, HUD regulations at 24 CFR 85.42(b)(1) and (c)(1) state that the records must be retained for 3 years from the last submission of its expenditure report (appendix C). Without complete procurement documentation, the City risks not meeting HUD's record retention regulations once it closes out the programs.

The condition described above occurred because the City did not implement controls over maintaining complete procurement documents when multiple operational changes occurred within the City. Specifically, at the start of the programs, the City's Community Redevelopment Agency was responsible for administering the program funds. However, the City's Successor Agency took over the programs after the Community Redevelopment Agency was dissolved in 2011. Currently, the City's Grants Division manages the programs. Therefore, the procurement documents were stored at various offices within the City, including an offsite storage area. As a result, the City was not able to locate the procurement documents for the programs to show that it gave vendors the opportunity to bid in a fair and open competition at a reasonable price for the program-related services.

Conclusion

The City did not maintain control of its procurement documents required to detail the significant procurement history. As a result, the City lacked evidence to show that vendors were given the opportunity to bid in a fair and open competition for the requested services and to otherwise support its procurement selections. Further, the City risks not meeting HUD's record retention regulations to maintain procurement documents after the closeout of the programs.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to

- 1A. Implement its procurement controls to ensure that it is able to locate and maintain the complete procurement documents for at least 3 years after the closeout of NSP1 and NSP3 in compliance with its own procedures and HUD regulations.

Finding 2: The City Did Not Always Disburse Program Funds in Compliance With Its Own Procedures and HUD Regulations

The City did not always disburse NSP1 and NSP3 funds for acquisition, rehabilitation, and administration expenses in compliance with its own procedures and HUD regulations. These conditions occurred because the City experienced high staff turnover and its staff did not always follow its own procedures and HUD regulations to administer these programs. As a result of our review of \$2.73 million in program funds, the City incurred \$272,206 in program-related acquisition, rehabilitation, and administration expenses that it could not ensure were eligible and supported.

The City Did Not Always Ensure That NSP1 Expenses Were Supported

The City disbursed NSP1 funds for acquisition, rehabilitation, and administration expenses without the required supporting documents (appendix D). This condition occurred because the City experienced high staff turnover and its staff did not always follow the City's own procedures and HUD regulations for reviewing all expended NSP1 funds and maintaining the required documents to support these program expenses. If the City follows its procedures and HUD regulations, it would have ensured that all NSP1 disbursements were supported, eligible, reasonable, and necessary. Of the more than \$1.68 million NSP1 expenses reviewed, the City could not provide documentation to support \$161,131 for the following program expenses:

- Acquisition expenses – The City paid \$1,046 in acquisition expenses to its developer partner for holding costs of a property for which it could not provide utility bills to support gas and electric expenses (appendix D). These utility bills are important because they show the property address, billing period, and use of gas and electric utilities to prevent overpayments to the City's developer partner. In addition, providing documentation to support these expenses ensures that funds are used for eligible property expenses. Therefore, the City needs to provide utility bills to support gas and electric expenses as required by its own grant agreement and HUD regulations at 24 CFR 85.20(b)(6) (appendix C).
- Rehabilitation expenses – The City paid \$108,630 in rehabilitation expenses to its developer partner for developer fees and completed rehabilitation work without the required supporting documents (appendix D). Specifically, \$34,341 of the total unsupported rehabilitation expenses was related to developer fees for completed rehabilitation work at three NSP1 properties. According to the City's NSP Implementation Procedures, Section (II)(5), Developer or Subrecipient Fee, the developer partner may earn developer fees for providing acquisition, rehabilitation, resale, and property management services. Also, according to HUD regulations at 24 CFR 85.20(b)(6), accounting records must be supported with contract and subgrant award documents. The City provided an amended agreement that allowed the developer partner to earn 5 percent developer fees for the completed rehabilitation work. However, the amended agreement related only to NSP3 properties. The City could not provide an amended agreement that would have allowed the developer partner to earn the developer

fees for the completed rehabilitation work at three NSP1 properties as required by its own procedures and HUD regulations.

The remaining \$74,289 in unsupported rehabilitation expenses was related to completed rehabilitation work at two properties where we performed site visits, and the properties appeared to be renovated and in reasonable condition. The City could not provide payroll records to support its contractor's labor costs as required by HUD regulations at 24 CFR 85.20(b)(6) and Office of Management and Budget (OMB) Circular A-87, attachment B, Section 8(h)(1) (appendix C). In addition, the City could not provide invoices and receipts to support the materials purchased as required by HUD regulations at 24 CFR 85.20(b)(6). Further, the City could not provide several applications and certifications for payment as required by HUD regulations at 24 CFR 570.506(h) (appendix C). These applications and certifications for payment are important because they show the comparisons of budgeted amounts and actual expenditures, construction progress schedules signed by appropriate parties, and other documents appropriate to the nature of the activity.

The City's consultant stated that it did not review the developer partner's labor and material costs for the completed rehabilitation work. Instead it verified the reasonableness of each line item in the approved scope of work in accordance with its agreement and program policies and procedures. However, the City's NSP Implementation Procedures, Section (II)(14)(C), Course of Construction Inspections, states that the City will maintain the appropriate invoices, lien releases, and photographs after completion of the contracted work (appendix C). Therefore, the City should have obtained and reviewed the required documents to ensure that its developer partner complied with its own procedures and HUD regulations for the completed rehabilitation work.

- Administration expenses – The City paid \$51,455 in administration expenses to its staff and consultants for the administration and services related to the program without sufficient supporting documents (appendix D). Specifically, \$3,652 of the total unsupported administration expenses was related to a City staff member's salary in 2012 and 2013. The City provided timesheets to support its staff member's salary. However, these timesheets did not indicate that the staff member had worked on program-related activities. According to HUD regulations at 24 CFR 85.20(b)(6), accounting records must be supported with time and attendance records. Also, the City's NSP Implementation Procedures, Section (II)(25), NSP Account Establishment, states that timesheets reflect the administration charges incurred for program activities (appendix C). On June 23, 2010, the City emailed its staff members a reminder to charge hours worked on the program to a separate line item on their timesheets to identify the account number and exact hours worked each day.

The remaining \$47,803 in unsupported administration expenses was related to consultant services. Specifically, the City did not provide seven contracts or agreements to support consultant services related to NSP1 projects as required by its own grant agreement and

HUD regulations at 24 CFR 85.20(b)(6). Instead, the City provided its board resolutions to allow the City to issue purchase orders to some of its consultants for technical assistance and program administration. Without executable contracts or agreements, the City did not ensure that its consultants performed the required scope of work. These contracts or agreements would hold the City's consultants accountable to follow City and HUD regulations to meet the program's goals and objectives.

The City Did Not Always Ensure That NSP3 Expenses Were Supported

The City disbursed NSP3 funds for rehabilitation and administration expenses without the required supporting documents (appendix D). Similar to NSP1, as discussed above, this condition occurred because the City experienced high staff turnover and its staff did not always follow the City's own procedures and HUD regulations for reviewing all expended NSP3 funds and maintaining the required documents to support these program expenses. If the City follows its procedures and HUD regulations, it would have ensured that all NSP3 disbursements were supported, eligible, reasonable, and necessary. Of the more than \$1 million in NSP3 expenses reviewed, the City could not provide documentation to support \$109,525 for the following program expenses:

- Rehabilitation expenses – The City paid \$67,157 in rehabilitation expenses to its developer partners for the completed rehabilitation work at three NSP3 properties without the appropriate supporting documents (appendix D). We performed site visits to these properties, and they appeared to be renovated and in reasonable condition. Similar to NSP1 unsupported rehabilitation expenses, as discussed above, the City could not provide payroll records to support its contractors' labor costs as required by HUD regulations at 24 CFR 85.20(b)(6) and OMB Circular A-87, attachment B, Section 8(h)(1), for three rehabilitated properties. In addition, the City could not provide several applications and certifications for payment, as required by HUD regulations at 24 CFR 570.506(h), for the same rehabilitated properties. Also, the City could not provide invoices and receipts to support the materials purchased for two rehabilitated properties and a contract or agreement between the City's developer partner and its contractor for one rehabilitated property as required by HUD regulations at 24 CFR 85.20(b)(6). The City is required to maintain the appropriate invoices, lien releases, and photographs after completion of the rehabilitation work in accordance with the City's NSP Implementation Procedures, Section (II)(14)(C), Course of Construction Inspections, for three rehabilitated properties. As a result, the City could not ensure that the completed rehabilitation work for three properties complied with its own procedures and HUD regulations.
- Administration expenses – The City paid \$42,368 in administration expenses to its consultants without the required documents to support services related to NSP3 projects (appendix D). Similar to NSP1 unsupported administration expenses, as discussed above, the City did not provide three contracts or agreements to support its consultant services as required by its own grant agreement and HUD regulations at 24 CFR 85.20(b)(6). These contracts or agreements define the terms, conditions, scope of work, and program requirements that the City's consultants are required to follow to meet program

objectives. Also, the City could not provide invoices to support consultant services for one consultant as required by HUD regulations at 24 CFR 85.20(b)(6). As a result, the City did not maintain the required contracts or agreements and invoices to support that its consultants complied with its own procedures and HUD regulations to meet program goals.

The City Acquired a Property Without the Required Purchase Discount

The City acquired a foreclosed NSP3 property without the required purchase discount. Specifically, it acquired a foreclosed property at the current market value of \$155,000 without complying with the purchase discount regulations. According to Federal Register Notice 75 (FR) 64337-64338, Section Q, Purchase Discount (October 19, 2010), and the City's NSP Implementation Procedures, Section (I)(E)(3), the City is required to acquire foreclosed properties with at least a 1 percent discount from the current market appraised value (appendix C). Based on the Federal Register notice and the City's own procedures, the discount on the property would have been \$1,550 (\$155,000 times 1 percent) at a purchase price of \$153,450 (\$155,000 minus \$1,550). The City's consultant acknowledged that the purchase price of the foreclosed property should have been \$153,450, which included a 1 percent purchase discount from the appraised value. This condition occurred because the City did not follow its own procedures and HUD regulations to ensure that it purchased the foreclosed property at a discount purchase price of \$153,450. As a result, it overpaid \$1,550 to acquire the property.

Conclusion

The City incurred \$272,206 in questioned program expenses because it experienced high staff turnover and its staff did not always follow its own procedures and HUD regulations to disburse these program funds. The City could have obtained technical assistance from HUD to ensure that all required documents are maintained to comply with program regulations.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to

- 2A. Provide the required documents to support \$161,131 in NSP1 and \$109,525 in NSP3 funds for expenses for acquisition, rehabilitation, and administration. If the City cannot provide the required documents, it should repay the U.S. Treasury from non-Federal funds.
- 2B. Repay the U.S. Treasury from non-Federal funds for the \$1,550 overpaid to acquire a foreclosed NSP3 property.
- 2C. Obtain technical assistance from HUD to ensure that it is able to manage the programs and comply with program regulations before processing future expenses related to NSP1 and NSP3 projects and activities.

Finding 3: The City Did Not Always Submit the Required Reports on Time and Post HUD Performance Reports on Its Website

The City did not always submit its NSP1 and NSP3 reports to HUD within the required timeframes and post its HUD quarterly performance reports on its official website as required by its own procedures and HUD regulations. We attributed these conditions to the City's high staff turnover and its staff not always following its own procedures and HUD regulations to submit the required reports on time and post HUD quarterly performance reports on its website. As a result, the City's late submission of these reports prevented HUD from knowing the progress of these program-funded projects and activities. Also, the City's lack of posting these HUD quarterly performance reports on its website prevented the general public, government entities, and other stakeholders from accessing information related to the progress of these program-funded projects and activities.

The City Did Not Always Submit HUD Quarterly Performance Reports and Annual Single Audit Reports on Time

The City did not always submit its NSP1 and NSP3 HUD quarterly performance reports and annual single audit reports on time as required by its own procedures and HUD regulations. Specifically, the City submitted 21 of 41 (51 percent) NSP1 and 16 of 33 (48 percent) NSP3 HUD quarterly performance reports late. According to 75 FR 64337, Section O (1)(b), Reporting (October 19, 2010), and City's NSP Implementation Procedures, Section (II)(27), the City must submit a program quarterly performance report to HUD no later than 30 days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award and continuing until the end of the grant (appendix C). These performance reports are important because they show the progress of NSP1 and NSP3 activities quarterly. HUD uses these reports to determine whether the grantees use the funds for providing emergency assistance to stabilize communities with high rates of abandoned and foreclosed homes and to assist households whose annual incomes are up to 120 percent of the area median income.

During our review period, the City submitted fiscal years 2009 through 2017 annual single audit reports to HUD late. In addition, the City did not submit the fiscal year 2018 single audit report to HUD. According to HUD regulations at 24 CFR 85.26(a) and the City's NSP Implementation Procedures, Section (II)(25), NSP Fund Maintenance Requirements, the City is responsible for obtaining audits in compliance with OMB Circular A-133, which states that the City is required to complete and submit the single audit within the earlier of 30 calendar days after receipt of the auditor's report or 9 months after the end of the audit period (appendix C). These annual single audit reports are important because they provide HUD with reasonable assurance that the City complied with the applicable laws and regulations to meet program goals and objectives.

Similar to finding 2, these conditions occurred because the City experienced high staff turnover and its staff did not always follow its own procedures and HUD regulations, which prohibited the City from completing and submitting the quarterly performance reports and single audit reports to HUD on time. If the City follows its procedures and HUD regulations to administer the programs, it would have ensured meeting its deadlines to complete and submit these reports to

HUD. As a result, the City's late submission of these reports prevented HUD from knowing the progress of these program-funded projects and activities.

The City Did Not Always Post HUD Quarterly Performance Reports on Its Website as Required

The City did not always post its NSP1 and NSP3 HUD quarterly performance reports on its official website as required by its own procedures and HUD regulations. Specifically, it had not posted 21 of 41 (51 percent) NSP1 (appendix E) and 22 of 33 (67 percent) NSP3 (appendix F) HUD quarterly performance reports on its website. According to 75 FR 64337, Section O (1)(b), Reporting (October 19, 2010), and the City's NSP Implementation Procedures, Section (II)(28), the City is required to post its quarterly performance reports on its official website (appendix C). If the City post these reports on its website, it allows the general public, government entities, and other stakeholders to view the progress of these program-funded projects and activities.

Similar to the issue discussed above, this condition occurred because the City experienced high staff turnover and its staff did not always follow its own procedures and HUD regulations, which prohibited the City from posting the quarterly performance reports on its website. If the City follows its procedures and HUD regulations to administer the programs, it would have ensured that it posted the quarterly performance reports on its website. When these reports were not posted on its website, it prevents the general public, government entities, and other stakeholders from accessing information related to the progress of these program-funded projects and activities.

Conclusion

HUD, the general public, government entities, and other stakeholders were not given access to the information about the progress of these projects and activities. The City experienced high staff turnover and its staff did not always follow its own procedures and HUD regulations that contributed to the late submission of the required reports to HUD and not posting all performance reports on its website. The City could have obtained technical assistance from HUD to ensure that the required reports are submitted on time and posted on its website.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to

- 3A. Follow its NSP procedures and HUD regulations to complete and submit its future NSP1 and NSP3 HUD quarterly performance reports and annual single audit reports within the required timeframes until the closeout of the respective programs or until HUD is assured that these reports are consistently submitted on time.
- 3B. Follow its own procedures and HUD regulations to post the missing 21 NSP1 and 22 NSP3 HUD quarterly performance reports, as of June 30, 2019, on its official website; and, post the future NSP1 and NSP3 HUD quarterly performance reports on its website until the closeout of the respective programs or until HUD is assured that these reports are consistently posted on its website.

- 3C. Obtain technical assistance from HUD to ensure that the City is able to submit its quarterly performance reports and annual single audit reports on time and post the performance reports on its website to comply with program regulations.

Scope and Methodology

We performed our audit work at the City's office located in Compton, CA, from August 2019 through February 2020. Our review covered the period July 1, 2008, through June 30, 2019, and was extended as necessary.

To accomplish our objective, we

- Reviewed relevant program background information.
- Reviewed applicable Federal and HUD regulations.
- Reviewed the City's NSP Implementation Procedures and Procurement manual.
- Reviewed the City's HUD-approved grant agreements and action plans.
- Reviewed the City's program procurement files.
- Reviewed the City's program expenses related to acquisition, rehabilitation, and administration.
- Obtained an understanding of the City's internal controls.
- Interviewed the City's staff and consultant to obtain an understanding of the programs.
- Reviewed the City's audited financial statements and annual single audit reports.
- Reviewed HUD monitoring review reports.
- Reviewed HUD quarterly performance reports and remaining program funds and income from HUD's Disaster Recovery Grant Reporting (DRGR) system.
- Reviewed the City's vendor lists, chart of accounts, and general ledgers relating to the programs.
- Performed site visits to the completed rehabilitated program-funded properties within our audit sample.

The universe for NSP1 consists of more than \$3.1 million in program fund drawdowns and \$436,360 in program income drawdowns, for a total of more than \$3.5 million. In addition, the universe for NSP3 consists of more than \$1.2 million in program fund drawdowns and \$541,193 in program income drawdowns, for a total of more than \$1.7 million. During our review period,

the City made 50 drawdowns¹ for the programs. Of these drawdowns, 29 were for NSP1, and 21 were for NSP3. We sorted the drawdowns from lowest to highest disbursement amounts. We selected a nonstatistical² sample of four drawdowns from each category – lowest, median, and highest disbursement amount – for a total of 12 drawdowns for each program, which totaled 24 drawdowns. We selected more than \$1.68 million in NSP1 drawdowns and \$1 million in NSP3 drawdowns, which represent 47 and 60 percent of the universe, respectively. The results from our review were limited to the nonstatistical samples and cannot be projected to the universe. Overall, our sampling method was sufficient to meet the audit objective.

We relied on HUD’s DRGR system³ for determining the audit universe and selecting a sample of program expenses incurred related to acquisition, rehabilitation, and administration provided through the grant agreements for testing. We performed a minimal level of testing and found the data to be sufficiently reliable to meet the audit objective and for the intended use of the data.

We conducted the 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹ Our sample selection included only drawdowns that were more than \$10,000 during our review period.

² A nonstatistical sample is appropriate when the auditor knows enough about the population to identify a relatively small number of items of interest. The results of procedures applied to items selected under this method apply only to the selected items and must not be projected to the portion of the population that was not tested.

³ The DRGR system was developed by HUD’s Office of Community Planning and Development for the Community Development Block Grant Disaster Recovery program and other special appropriations such as NSP. The DRGR system is primarily used by grantees to access grant funds and report performance accomplishments for grant-funded activities. The DRGR system is used by HUD staff to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor program compliance.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The City did not implement its procurement controls to ensure that it maintained complete procurement documents to show fair and open competition at a reasonable price for services related to the revitalization of targeted neighborhoods (finding 1).
- The City experienced high staff turnover and its staff did not always follow its own procedures and HUD regulations, which did not allow it to implement program requirements

to ensure that it disbursed program funds, submitted required reports, and posted HUD quarterly performance reports on its website in compliance with its own program procedures and HUD regulations (findings 2 and 3).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
2A		\$270,656
2B	\$1,550	
Totals	1,550	270,656

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B


Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



City of Compton
OFFICE OF THE CITY MANAGER

CRAIG J. CORNWELL
City Manager

Office: (310) 605-5065
Fax: (310) 761-1427
email: ccornwell@comptoncity.org

August 19, 2020

Ms. Tanya E. Schulze
Regional Inspector General for Audit
Office of Inspector General
U.S. Dept. of Housing and Urban Development (HUD)
611 W, 6th Street, Suite 1160
Los Angeles, CA 90017-3101

Subject: Response to the Draft Audit Report for the Neighborhood Stabilization Program (NSP 1 & 3)


Dear Ms. Schulze:

This letter is in response to the Draft Audit Report prepared by the U.S. Housing and Urban Development (HUD), Office of Inspector General (OIG) received on August 11, 2020 for the Audit conducted at the City of Compton from August, 2019 through February, 2020 for the above-named-program. This letter responds to the OIG findings. Each response is presented in the order in which they were presented in the Report and outlines the responses by the City regarding these findings. The page numbers in parentheses correspond to the page numbers in the Report.

FINDING 1:
The City did not maintain complete procurement documents in compliance with its procedures and HUD requirements.

A. The City did not Show Evidence of Fair and Open Competition at a Reasonable Price (Page 4).

The City agrees that the procurement documents were not consistently maintained, due to significant staff turnover in the past 10 years. Nonetheless, the City did provide the auditors with three (3) large boxes of procurement files that covered items such as appraisal services, lead-based paint contractors, contractors, real estate agents, and developer partners. These boxes contained several items necessary to make a complete analysis of program implementation; however, because the boxes were not organized in a chronological or systematic format, thus it was difficult for the OIG auditors to review and understand the files. Additionally, since the current Grants Division were new to the department and did not have prior experience administering the NSP 1 & 3 programs during the last 10 years.



COMPTON CITY HALL
205 South Willowbrook Avenue Compton, California 90220

**Ref to OIG
Evaluation**

Comment 3

Comment 4

**RESPONSE TO DRAFT AUDIT REPORT FOR NSP
PAGE TWO**

OIG auditors stated that although, the City was able to generate documentation to support several transactions, it was unable to provide evidence to document adequate procurement processes. The City would like to clarify that the auditors claim that this inability to produce documentation may be due to lack of maintenance of records, was the result of more than 8 years of moving boxes, files and staff to different City facilities, which created a lack of continuity within the City's file management system. To date, the City provided additional procurement documentation to the auditors on September 9, 2020 that contains copies of the proposals received, logs, and emails containing comments on file review that support the City's efforts to comply with HUD guidelines under the NSP 1 & 3 program.

The NSP 1 program began in 2009 and the NSP 3 program began in 2011. The City's Community Redevelopment Agency was responsible for administering the program funds. However, the City's Successor Agency took over the programs after the Community Redevelopment Agency was dissolved in 2011 and the Grants Division took over the program afterwards. Since 2011, there has been a substantial amount of staff turnover within the Successor Agency and Grants Division coupled with the physical relocation of offices, file cabinets, and storages that have contributed to the inability for City staff to provide 100% of the historical records under the NSP program from 2009 to current.

On August, 2019, the current Grant Division staff, which began working as of January 2019, worked with a consultant to fill in the knowledge gap of previous programming and collaborated with OIG auditors to provide documentation. The City acknowledges the fact that high staff turnover rate and relocating staff to multiple city facilities and offices contributed to program documentation retention issues, which prevented the City from providing 100% of all records related to the NSP 1 & 3 program expenditures. The City does believe that there are other support documents related to these files that are difficult to locate due to the constant transition and relocation of staff over the last 10 years.

As a corrective action, the City of Compton will ensure that all grant-related procurement procedures, processes, and documentation will be maintained and filed in a manner that can easily be provided to auditors in the future. These documents will include but not be limited to, detailed history of procurement, copies of all proposals/bids, the rationale for the method of procurement, and a synopsis of contractor selection or rejection.

Additionally, City staff will implement a system/method of storing and preserving documents within the Grants Division and in the City Clerk's Office by including procurement procedures into staff reports and resolutions, which must be authorized by City Council. Once approved by Council, the City Clerk's office then archives staff reports and resolutions on the City's website, which will further ensure maintenance of procurement documentation in addition to files within the Grants Division.

**Ref to OIG
Evaluation**

Comment 5

Comment 6

**RESPONSE TO DRAFT AUDIT REPORT FOR NSP
PAGE THREE**

The City acknowledges the retention period for NSP1 and NSP3 procurement documents is 3 years after closeout of the program and will ensure that it maintains documentation electronically, in hard copy files, and within the Clerk's office. During the audit, City staff submitted several proposals to the OIG auditing team however; the auditors were unable to connect the proposals to the formal bid solicitation process, because they were not easily identifiable to each project. The City followed these processes and policies for its acquisition, rehabilitation, resale and administrative program files. The City staff implemented a procurement process during the program implementation timeline in question based on the City's policy of the City Manager's authority limits for purchases under \$25,000, which is a City Council approved policy. As such, staff did not initiate a formal bid process assuming that the City Manager's spending authority was sufficient and negated the requirement of a formal bid process. The City would request that OIG interpret the City's procurement process initiated by staff that included email solicitation of the proposals with multiple contracts as a fair and open competition process.

**FINDING 2:
The City did not always disburse NSP1 and NSP3 funds in compliance with its own
procedures and HUD requirements.**

A. The City Did not always disburse NSP1 and NSP3 funds for acquisition, rehabilitation, and administration expenses in compliance with its own procedures and HUD regulations. (page 6).

The City disagrees with OIG Auditors assessment of the reason behind the City not always disbursing program funds in compliance with its own procedures and HUD regulations. The OIG report states that,

“...current reallocated staff lacked sufficient knowledge of its own procedures and HUD regulations to administer these programs. As a result, the City disbursed a total of \$272,206 in questioned program expenses when it did not ensure that its program-related acquisition, rehabilitation, and administration expenses were and supported.”

The City Grants Division staff as well as other City staff have over thirty years of experience and knowledge. None of the NSP funds in question were dispersed without consideration and compliance with HUD guidelines; more so, the issue was the file management system and organizational structure of the City's files were not clearly identified and newer the City's current staff were unfamiliar with the previous staff's work and file management system, which prevented the City from providing all of the required documentation to the auditors. At this time, the City has re-structured the Grants Division with staff that are knowledgeable of City's procurement procedures, administrative documentation, and hired a consultant to assist with NSP related procedures and file re-organization to prepare for grant close-out

**Ref to OIG
Evaluation**

Comment 7

**RESPONSE TO DRAFT AUDIT REPORT FOR NSP
PAGE FOUR**

B. The City Did Not Always Ensure That NSP1 Expenses Were Supported (Page 6)

The City acknowledges that due to staff turnover and multiple relocation of offices, staff was unable to provide all of the requested documentation related to \$161,131 and \$109,525 for NSP1 and NSP3 expenses, respectively. The City will continue search for support documents and reorganize all NSP files to identify any additional documentation.

The City made a good faith effort to comply with the one (1%) purchase discount on all of the files. However, the one file in question with a dollar amount of \$1,550, staff attempted to obtain a contract amendment during the escrow process; however, the Realtors for the property were unable to get Fannie Mae to sign prior to closing. In an attempt to correct this issue, staff shorted the developer partner's invoice to account for this error.

FINDING 3:

The City did not always submit HUD performance reports and single audit reports as required by its own procedures and HUD requirements.

Comment 8

B. The City Did Not Always Submit HUD Quarterly Performance Reports and Annual Single Audit Reports on Time. (Page 11)

The City acknowledges that there were some DRGR Quarterly Performance Reports and Single Audit Reports were not filed timely due to significant staff turnover. Additionally, the DRGR system screenshots provided by the auditors to document late reports submitted by the City; did not indicate the original timestamp of submission, only the last one upon approval by HUD. As a result, this created a perception that all of the reports were submitted late by the City, when in fact some reports were submitted timely to the HUD representative, but the original submission date was not logged into the DRGR system. The City has provided copies of email correspondence between City staff and HUD that illustrates that the City submitted several DRGR report on time that were originally listed as late reports. Lastly, the City has downloaded and posted to the all of the DRGR reports to the City's website. This inconsistency was due primarily to staff turnover within the Grants Division and City Controller's Office, as well as, lost data when the City upgraded its website.

Comment 9

The City will ensure quarterly performance reports are submitted timely and posted on its official website. The City is developing internal policies and procedures to ensure that the City's Single Audit is prepared annually and submit to HUD as required.


CRAIG J. CONWELL
CITY MANAGER

OIG Evaluation of Auditee Comments

- Comment 1 We appreciate the City's time and consideration to review and respond to the audit report.
- Comment 2 We acknowledge the City's situation related to the organization of the procurement documents. However, we disagree with the City that it provided all of the necessary procurement documents related to property acquisition and rehabilitation services and consultant services for NSP1 and NSP3. The documents provided and the City's recordkeeping practice did not meet its own requirements and HUD regulations. This includes HUD regulations at 24 CFR 85.42(b)(1) and (c)(1) that the City must retain all program-related documents for 3 years after the closeout of these programs. It is important for the City to maintain complete and organized procurement documents to ensure it shows that its procurements were open and fair, to comply with HUD regulations. During the audit resolution process, the City can use the list that we emailed to its staff and consultant to provide the requested documents to address the recommendation.
- Comment 3 We acknowledge the City's situation, but it must ensure that it maintains all program-related documents in compliance with HUD regulations. On September 9, 2020, the City provided additional documents to address the reported issues. However, those documents were not what we requested and did not address the reported issues of maintaining complete and accurate program-related documents. As a result, we did not change the content within finding 1. The City can further address this with HUD during the audit resolution process.
- Comment 4 We acknowledge the City's situation involving the administration of NSP1 and NSP3. We appreciate the City's efforts to take corrective actions to ensure that it will implement a recordkeeping system that will maintain all future program-related procurement documents in compliance with HUD regulations.
- Comment 5 We acknowledge the City's efforts to comply with HUD regulations related to retaining its NSP1 and NSP3 procurement documents after the closeout of these programs. However, the City could not provide organized procurement documents to show evidence of fair and open competition for the program-related services. The City responded that during implementation of the programs, it implemented a policy that allowed the City Manager to make purchases under \$25,000 without initiating a formal bid process. However, the City did not provide documents that explicitly supported its statement. Instead, the City provided only a procurement manual with an effective date of April 1, 1997. During the audit resolution process, the City can provide the requested documents to support its procurement practices for the services in question and resolve the reported issues.

- Comment 6 We acknowledge the City's situation with managing NSP1 and NSP3. Further, we acknowledge and respect the years of experience and knowledge shared among the City staff and consultant. Specifically, the City's restructuring plan included knowledgeable staff to ensure that the City uses program funds in compliance with HUD regulations, as it prepares for the grant closeout process. As a result, we incorporated the City's statement in the finding.
- Comment 7 We appreciate the City's effort in attempting to find all of the required documents to support a total of \$161,131 in NSP1 and \$109,525 in NSP3 questioned expenses mentioned in the report. Additional documentation can be provided to HUD during the audit resolution process. In addition, the City can provide the documentation to support its actions taken for the \$1,550 in questioned costs related to its purchase of a NSP3 property
- Comment 8 We disagree with the City's statement that the HUD quarterly performance reports submittal status obtained from the DRGR system was inaccurate. The City provided emails to us to show that it submitted the initial reports in question into the DRGR system on time. However, HUD reviewed and determined that these initial reports were either inaccurate or incomplete. As a result, the City revised and resubmitted these reports into the DRGR system for HUD to review. The City was late in submitting the revised reports as required by HUD's designated quarterly deadlines. HUD designed the DRGR system to capture only the latest submission of the reports from the grantee. It is the City's responsibility to ensure that these reports are accurate and complete before submitting into the DRGR system by HUD's required deadlines.
- Comment 9 We appreciate the City's efforts in taking corrective action to ensure that it will submit NSP1 and NSP3 HUD quarterly performance reports to HUD on time and post these reports on its website. In addition, we appreciate the City's efforts in developing internal policies and procedures that will ensure it completes and submits its annual single audit reports to HUD on time.

Appendix C

Criteria

The following sections of 75 FR (October 19, 2010); the NSP1 grant agreement, effective March 16, 2009; the NSP3 grant agreement, effective, March 9, 2011; 24 CFR part 85; 24 CFR part 570; OMB Circular A-87; the City's procurement manual, effective April 1, 1997; and NSP Implementation Procedures, effective August 2013, were relevant to our audit of the City's programs.

75 FR 64337-64338, Section Q, Purchase Discount (October 19, 2010)

To ensure that uncertainty over the meaning of this section does not delay program implementation, HUD is defining "current market appraised value" in this notice. For mortgage foreclosed properties, HUD is requiring that grantees seek to obtain the "maximum reasonable discount" from the mortgage, taking into consideration likely "carrying costs" of the mortgage if it were not to sell the property to the grantee or subrecipient. HUD has adopted an approach that requires a minimum discount of one percent for each foreclosed upon home or residential property purchased with NSP funds.

75 FR 64337, Section O (1)(b), Reporting (October 19, 2010)

NSP1 and NSP3 grantees must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award and continuing until the end of the grant. In addition to this quarterly performance reporting, beginning three months prior to its use or expenditure deadline, as applicable, each grantee will report monthly on its NSP use and expenditure of funds, and continuing monthly until reported total uses or expenditure of funds are equal to or greater than the total NSP grant or the deadline occurs. After HUD has accepted a report from a grantee showing such use or expenditure of funds, the monthly reporting requirement will end. Quarterly reports will continue until all NSP funds (including program income) have been expended and those expenditures are included in a report to HUD, or until HUD issues other instructions. Each report will include information about the use of funds, including, but not limited to, the project name, activity, location, national objective, funds budgeted and expended, the funding source and total amount of any non-NSP funds, numbers of properties and housing units, beginning and ending dates of activities, beneficiary characteristics, and numbers of low- and moderate-income persons or households benefiting. Reports must be submitted using HUD's web-based Disaster Recovery Grant Reporting system and, at the time of submission, be posted prominently on the grantee's official Web site.

NSP1 Grant Agreement, Effective March 16, 2009

The Grantee shall at all times maintain an up-to-date copy of its Grantee Submission, including all amendments approved by HUD, on its Internet website as required by the Notice. Further, the Grantee shall maintain information on all drawdowns, deposits, and expenditures of grant funds and program income under this Funding Approval and Grant Agreement and any other records required by 24 CFR 570.506, in its files and shall make such information available for audit or inspection by duly authorized representatives of HUD, HUD's Office of Inspector General, or the Comptroller General of the United States.

NSP3 Grant Agreement, Effective March 9, 2011

The Grantee shall at all times maintain an up-to-date copy of its Grantee Application, including all amendments approved by HUD, on its Internet website. Further, the Grantee shall maintain information on all drawdowns, deposits, and expenditures of grant funds and program income under this Funding Approval and Grant Agreement and any other records required by 24 CFR 570.506 and the NSP3 Notice, as amended, in its files and shall make such information available for audit or inspection by duly authorized representatives of HUD, HUD's Office of the Inspector General, or the Comptroller General of the United States.

24 CFR 85.20(b)(6), Source Documentation

Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

24 CFR 85.26(a), Basic Rule

Grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 (31 United States Code 7501–7507) and revised OMB Circular A–133, “Audits of States, Local Governments, and Non-Profit Organizations.” The audits shall be made by an independent auditor in accordance with generally accepted government auditing standards covering financial audits.

24 CFR 85.36(b)(9), Procurement Standards

Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

24 CFR 85.36(f)(1), Contract Cost and Price

Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to

the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.

24 CFR 85.42(b)(1), Length of Retention Period

Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.

24 CFR 85.42(c)(1), Starting Date of Retention Period

When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due.

24 CFR 570.506(h), Records To Be Maintained

Financial records, in accordance with the applicable requirements listed in §570.502, including source documentation for entities not subject to parts 84 and 85 of this title. Grantees shall maintain evidence to support how the Community Development Block Grant funds provided to such entities are expended. Such documentation must include, to the extent applicable, invoices, schedules containing comparisons of budgeted amounts and actual expenditures, construction progress schedules signed by appropriate parties (e.g., general contractor and/or a project architect), and/or other documentation appropriate to the nature of the activity.

OMB Circular A-87, Attachment B, Section 8(h)(1), Compensation for Personal Services

Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

City's Procurement Manual, Effective April 1, 1997, Section X, Retention of Records

Procurement records shall be maintained sufficient to detail the significant history of a procurement. These records shall include, but are not necessarily limited to information pertinent to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the cost or price.

In addition to, and made a part of the City's selection procedures and guidelines, specifically with Federal, State and or County projects, the City shall:

- A. Make bids and proposals a part of the public record.
- B. Maintain in their files: 1) a copy of all the proposals and bids submitted by the consultants or contractors; 2) the evaluation documents leading to the selection of the

awardee; 3) post-award correspondence and prior approvals by the City and other governmental entities (when applicable); and 4) other related and pertinent documents.

NSP Implementation Procedures, Effective August 2013, Section (I)(E)(3), Purchase Discount Requirements

Section 2301(d)(1) of the Housing and Economic Recovery Act of 2008 requires any purchase of a foreclosed-upon home or residential property under NSP be at a discount from the current market-appraised value of the home or property. Such discount shall ensure that purchasers are paying below-market value for the home or property. For individual purchase transactions, the purchase discount is to be at least 1 percent from the current market appraised value of the home or property.

Current market appraised value is defined as the value of a foreclosed-upon home or residential property that is established through an appraisal made in conformity with the appraisal requirements of the Uniform Relocation Act at 49 CFR 24.103 and completed within 60 days prior to an offer made for the property by a grantee, subrecipient, Developer or Subrecipient, or individual homebuyer.

For mortgagee foreclosed properties, grantees must seek to obtain the “maximum reasonable discount” from the mortgagee, taking into consideration likely “carrying costs” of the mortgagee if it were to not sell the property to the grantee or subrecipient. NSP funded vacant, abandoned or demolished properties are not subject to the 1 percent discount requirement unless they are also foreclosed.

NSP Implementation Procedures, Effective August 2013, Section (II)(5), Developer or Subrecipient Fee

The Selected Developer or Subrecipient Partner will be compensated for providing services relating to the acquisition, rehabilitation, resale, and property management of a home and for risks associated with the Selected Developer or Subrecipient Partner’s obligations pursuant to the Acquisition, Rehabilitation, Rental and Resale Program through a Developer fee or Subrecipient activity delivery fees in accordance with maximums established under the Program Requirements above.

The Developer or Subrecipient fee paid in connection with each home is subject to the approval of the Director of Redevelopment pursuant to the Guidelines. The final Developer or Subrecipient fee to be paid to the Selected Developer or Subrecipient Partner will be based on the actual total Project Cost and the Resale Price approved by the Agency.

In the event the actual Project Cost exceeds the approved Project Cost or the actual Resale Price is less than the approved Resale Price, then the Developer or Subrecipient fee shall be reduced accordingly on a dollar for dollar basis. For example, if the actual Project Cost is \$10,000 more than the approved Project Cost or if the home sells for \$10,000 less than the approved Resale Price, then the approved Developer or Subrecipient fee shall be reduced by \$10,000.

The Developer or Subrecipient fee will be paid to the Selected Developer or Subrecipient Partner through the escrow for the sale of the home to a qualified and approved Eligible Household in accordance with the Guidelines, the Developer or Subrecipient Partner Agreement, the Covenants, Conditions, and Restrictions, the Deed of Trust, the NSP Regulations, and all other documents and agreements executed by the Selected Developer or Subrecipient Partner in connection with the Acquisition, Rehabilitation, Rental and Resale Program.

NSP Implementation Procedures, Effective August 2013, Section (II)(14)(C), Course of Construction Inspections

During the rehabilitation work, the Agency may at any time inspect and evaluate the progress and quality of the rehabilitation. The Agency shall inspect the work performed whenever the Developer or Subrecipient or Subrecipient Partner submits a request for payment. If the contracted work is successfully completed, the Agency's representative shall collect the appropriate invoice, lien release, and photographic documentation and prepare and transmit a payment request to the City's Department of the City Controller for payment. Copies of all payment documentation shall be maintained in the project file.

NSP Implementation Procedures, Effective August 2013, Section (II)(25), NSP Account Establishment

In order to provide for a NSP compliant accounting of expenditures and receipts, a new discreet set of expenditure and revenue accounts (inclusive of a separate program income) shall be established in the City's chart of accounts. Accounting for NSP related staff administrative charges shall be based on timesheet reporting which reflects charges incurred for NSP activities. Monthly expenditure and revenue reports shall be provided to the Agency for their review, use in their grants management capacity, and maintenance within the program file.

The Department of the City Controller and Agency staff shall be jointly responsible for establishing the project and activity framework within the Disaster Recovery Grant Reporting system, inclusive of the entry of the action plan entries, and any required project and budget modifications.

NSP Implementation Procedures, Effective August 2013, Section (II)(25), NSP Fund Maintenance Requirements

The Department of the City Controller shall maintain the established NSP expenditure and revenue ledger on an on-going basis in accordance with the provisions of OMB Circular A-87, and for compliance with OMB Circular A-133 as a discreet federally funded grant activity.

NSP Implementation Procedures, Effective August 2013, Section (II)(27), Disaster Recovery Grant Reporting Quarterly Reports

NSP quarterly performance report is initially due 30 days after the first full quarter after the grant agreement is executed. Subsequent quarterly performance reports are due 30 days after the end of each quarter throughout the life of the grant. Quarterly performance reports are entered through the Disaster Recovery Grant Reporting system, and a pdf version saved

by Agency staff for transmittal to the City's webmaster, and a printout maintained within the program file.

NSP Implementation Procedures, Effective August 2013, Section (II)(28), Posting of Quarterly Performance Reports

In keeping with the Office of Management and Budget's Open Government Directive, HUD requires that all quarterly performance reports be posted in a "prominent place" on the City's official website is "to keep citizens informed with up-to-date progress reports on the use of NSP funds."

In accordance with this directive, Agency staff shall transmit the pdf copy of each quarterly performance reports to the City's webmaster for immediate posting.

Amendments to these Implementation Procedures may be made from time to time, as a result of changing requirements or program needs. Federal NSP requirements are not subject to amendment or change by the City. The Director of Redevelopment is authorized to perform modification to these Procedures as necessary to effectuate the timely implementation of program goals and expenditures.

Appendix D

Unsupported Neighborhood Stabilization Programs 1 and 3 Expenses

Type of expenses	Unsupported NSP1 expenses	Unsupported NSP3 expenses	Total unsupported NSP1 and NSP3 expenses
Acquisition	\$1,046		\$1,046
Rehabilitation	108,630	\$67,157	175,787
Administration	51,455	42,368	93,823
Total	161,131	109,525	270,656

Appendix E

Neighborhood Stabilization Program 1 HUD Quarterly Performance Reports Missing From the City's Website

Item	Quarter-year	Reporting period
1	2 nd quarter 2012	April 1, 2012 – June 30, 2012
2	3 rd quarter 2012	July 1, 2012 – September 30, 2012
3	4 th quarter 2012	October 1, 2012 – December 31, 2012
4	1 st quarter 2013	January 1, 2013 – March 31, 2013
5	2 nd quarter 2013	April 1, 2013 – June 30, 2013
6	2 nd quarter 2015	April 1, 2015 – June 30, 2015
7	3 rd quarter 2015	July 1, 2015 – September 30, 2015
8	1 st quarter 2016	January 1, 2016 – March 31, 2016
9	2 nd quarter 2016	April 1, 2016 – June 30, 2016
10	3 rd quarter 2016	July 1, 2016 – September 30, 2016
11	4 th quarter 2016	October 1, 2016 – December 31, 2016
12	1 st quarter 2017	January 1, 2017 – March 31, 2017
13	2 nd quarter 2017	April 1, 2017 – June 30, 2017
14	3 rd quarter 2017	July 1, 2017 – September 30, 2017
15	4 th quarter 2017	October 1, 2017 – December 31, 2017
16	1 st quarter 2018	January 1, 2018 – March 31, 2018
17	2 nd quarter 2018	April 1, 2018 – June 30, 2018
18	3 rd quarter 2018	July 1, 2018 – September 30, 2018
19	4 th quarter 2018	October 1, 2018 – December 31, 2018
20	1 st quarter 2019	January 1, 2019 – March 31, 2019
21	2 nd quarter 2019	April 1, 2019 – June 30, 2019

Appendix F

Neighborhood Stabilization Program 3 HUD Quarterly Performance Reports Missing From the City's Website

Item	Quarter-year	Reporting period
1	4 th quarter 2011	October 1, 2011 – December 31, 2011
2	3 rd quarter 2012	July 1, 2012 – September 30, 2012
3	1 st quarter 2013	January 1, 2013 – March 31, 2013
4	2 nd quarter 2013	April 1, 2013 – June 30, 2013
5	3 rd quarter 2013	July 1, 2013 – September 30, 2013
6	4 th quarter 2013	October 1, 2013 – December 31, 2013
7	2 nd quarter 2015	April 1, 2015 – June 30, 2015
8	3 rd quarter 2015	July 1, 2015 – September 30, 2015
9	1 st quarter 2016	January 1, 2016 – March 31, 2016
10	2 nd quarter 2016	April 1, 2016 – June 30, 2016
11	3 rd quarter 2016	July 1, 2016 – September 30, 2016
12	4 th quarter 2016	October 1, 2016 – December 31, 2016
13	1 st quarter 2017	January 1, 2017 – March 31, 2017
14	2 nd quarter 2017	April 1, 2017 – June 30, 2017
15	3 rd quarter 2017	July 1, 2017 – September 30, 2017
16	4 th quarter 2017	October 1, 2017 – December 31, 2017
17	1 st quarter 2018	January 1, 2018 – March 31, 2018
18	2 nd quarter 2018	April 1, 2018 – June 30, 2018
19	3 rd quarter 2018	July 1, 2018 – September 30, 2018
20	4 th quarter 2018	October 1, 2018 – December 31, 2018
21	1 st quarter 2019	January 1, 2019 – March 31, 2019
22	2 nd quarter 2019	April 1, 2019 – June 30, 2019