OFFICE OF AUDIT
REGION 5
CHICAGO, IL

City of Detroit, MI

Neighborhood Stabilization Program Under the Housing and Economic Recovery Act of 2008

2014-CH-1002 JANUARY 6, 2014

Issue Date: January 6, 2014

Audit Report Number: 2014-CH-1002

TO: Keith E. Hernandez, Director of Community Development, 5FD

//signed//
FROM: Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

SUBJECT: The City of Detroit, MI, Lacked Adequate Controls Over Its Neighborhood Stabilization Program-Funded Demolition Activities Under the Housing and Economic Recovery Act of 2008

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), results of our review of the City of Detroit's Neighborhood Stabilization Program-funded demolition activities under the Housing and Economic Recovery Act of 2008.

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, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at (312) 913-7832.

January 6, 2014

The City of Detroit, MI, Lacked Adequate Controls Over Its Neighborhood Stabilization Program-Funded Demolition Activities Under the Housing and Economic Recovery Act of 2008

Highlights

Audit Report 2014-CH-1002

What We Audited and Why

We audited the City of Detroit's Neighborhood Stabilization Program-funded demolition activities under the Housing and Economic Recovery Act of 2008. We selected the City based on a request from the Office of Inspector General's Office of Investigation to work jointly with it on the assignment. Our objectives were to determine whether the City complied with Federal regulations in its (1) maintenance of accounting records for activities and (2) drawing down of Program funds for activities.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Community Planning and Development ensure that the City spent nearly $2.1 million in fire insurance funds and Program refunds for eligible Program costs. We also recommend that the Director require the City to (1) use nearly $204,000 in fire insurance funds and duplicate Program drawdowns for eligible Program costs, (2) reimburse HUD from non-Federal funds more than $76,000 in unnecessary interest paid by the U.S. Department of the Treasury, (3) maintian adequate accounting records for activities, and (4) implement adequate procedures and controls to address the finding cited in this audit report.

What We Found

The City did not maintain records that adequately identified the source and application of funds provided for its activities. Further, it inappropriately drew down Program funds (1) when it had fire insurance funds and Program refunds available and (2) for duplicate demolition costs. As a result, nearly $2.3 million in Program funds was not available for eligible Program costs. Further, the U.S. Treasury paid more than $76,000 in unnecessary interest on Program funds that the City inappropriately drew down when it should have used available fire insurance funds.

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVES

The Program. Authorized under Section 2301 of Title III of the Housing and Economic Recovery Act of 2008, as amended, Congress appropriated $4 billion for the Neighborhood Stabilization Program to provide grants to every State and certain local communities to purchase foreclosed-upon or abandoned homes and rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem the decline in value of neighboring homes. The Act states that amounts appropriated, revenues generated, or amounts otherwise made available to States and units of general local government under Section 2301 will be treated as though such funds were Community Development Block Grant funds under Title I of the Housing and Community Development Act of 1974.

The City. The City of Detroit is governed by a mayor and a nine-member council elected to 4-year terms. The City's Planning and Development Department administers its Program. Further, its Buildings, Safety Engineering, and Environmental Department is responsible for implementing Program-funded demolition activities. The mission of the Planning and Development Department is to strengthen and revitalize the City's neighborhoods and communities and to stabilize and transform its physical, social, and economic environment. The Buildings, Safety Engineering, and Environmental Department provides for the safety, health, welfare, and improvement of the quality of life of the general public relative to buildings and their environments in an efficient, cost-effective, user-friendly, and professional manner. The City's records are located at 65 Cadillac Square and 2 Woodward Avenue, Detroit, MI.

On March 19, 2009, HUD awarded the City more than $47 million in Program funds. The City initially budgeted $14 million for demolition activities. However, the City amended its budget, and as of March 8, 2013, its allocation for demolition activities totaled more than $19.9 million.

The City has participated in the State of Michigan's Fire Insurance Withholding program since July 1982. The State's program provides participating municipalities with some financial protection against the cost of repairing, replacing, or demolishing a damaged structure following a loss from fire, explosion, vandalism, malicious mischief, wind, hail, riot, or civil commotion. A municipality may receive a portion of a policyholder's final insurance settlement, which is to be held in a specified escrow account until the structure is repaired, replaced, or demolished. If the structure is not repaired, replaced, or demolished, the municipality must use the funds to repair, replace, or demolish the structure.

Our objectives were to determine whether the City complied with Federal regulations in its (1) maintenance of accounting records for activities and (2) drawing down of Program funds for activities.

RESULTS OF AUDIT

Finding 1: The City Did Not Administer Its Program-Funded Demolition Activities in Accordance With Federal Regulations

The City did not maintain accounting records that adequately identified the source and application of funds provided for its Program-funded demolition activities. Further, it inappropriately drew down Program funds (1) when it had fire insurance funds and Program refunds available and (2) for duplicate demolition costs. These weaknesses occurred because the City lacked adequate procedures and controls in the administration of its activities to ensure compliance with Federal regulations. As a result, (1) nearly $2.3 million in Program funds was not available for eligible Program costs and (2) the City inappropriately transferred more than $893,000 in fire insurance funds into its Program account. Further, the U.S. Department of the Treasury paid more than $76,000 in unnecessary interest on Program funds that the City inappropriately drew down when it should have used available fire insurance funds.

The City Did Not Maintain Adequate Records for Its Activities

The City did not maintain records that adequately identified the source and application of funds provided for its activities as required by HUD's regulations at 24 CFR (Code of Federal Regulations) 85.20(b)(2). We requested the amount of Program funds the City drew down for each of its activities. The City provided data from its Tidemark Advantage system. However, when we assessed the reliability of the data, we determined that the data from the system did not always match the supporting invoices in the vouchers.[1] Since there were a significant number of discrepancies, we determined that we could not rely on the data from the system. Therefore, to determine the amount of Program funds the City drew down for each of its activities, we had to review all 144 vouchers processed as of March 21, 2013.[2]

The City Inappropriately Drew Down More Than $1.2 Million in Program Funds When It Had Fire Insurance Funds Available

Contrary to HUD's regulations at 24 CFR 85.21(f)(2) and Federal regulations at appendix A, section C.1, of 2 CFR Part 225, the City inappropriately drew down

[1] For example, five of the six invoices in one of the vouchers included (1) amounts for demolition-related work for 25 activities that did not match the data from the system and (2) demolition-related work for three addresses that were not included in the data.

[2] The vouchers totaled more than $16.8 million and included more than 800 invoices for more than 3,700 addresses.

more than $1.2 million in Program funds from November 2009 through March 2013 for 227 activities when it should have used available fire insurance funds from the State's Fire Insurance Withholding program for the associated properties. Therefore, the U.S. Treasury paid at least $76,750 in unnecessary interest on the Program funds.[3]

On October 31, 2011, the City transferred more than $1.5 million from its fire insurance escrow account into its Program account.[4] Further, as of June 19, 2012, it had transferred nearly $526,000 in additional fire insurance funds into its Program account.[5] Of the nearly $2.1 million, the City transferred (1) $470,573 for 84 addresses for which the City did not draw down Program funds for activities and (2) $364,493 for 140 addresses that exceeded the amount of Program funds drawn down for the activities. As a result of our audit, the City transferred $20,944 from its Program account into its fire insurance escrow account on April 12, 2013, to correct a duplicate transfer of fire insurance funds for three addresses.

Further, the City provided a report it used to track the fire insurance funds. The report included addresses for which the City received fire insurance funds. However, it did not contain complete information.[6] Therefore, we reviewed the City's fire insurance escrow files for the addresses associated with the nearly $2.1 million in fire insurance funds it transferred into its Program account to determine whether the amounts transferred were appropriate. The City (1) did not transfer $51,981 in additional fire insurance funds into its Program account for 21 activities and (2) transferred $131,643 for 28 activities that exceeded the amount of fire insurance funds available for the properties.[7]

The City's report also contained 334 addresses that corresponded with the City's activities, for which it did not transfer any fire insurance funds into its Program account. We randomly selected 10 of the 334 addresses to determine whether fire insurance funds were available when the City drew down Program funds for demolition costs. The City inappropriately drew down $20,733 in Program funds from November 2009 through March 2013 for 7 of the 10 addresses, although it had received fire insurance funds for the properties. The City did not receive fire insurance funds for two of the addresses. For the remaining address, it received $7,443 in fire insurance funds on October 22, 2008, and drew down $3,833 in Program funds from October 2011 through August 2012. However, it transferred

[3]See scope and methodology.
[4] This transfer included $4,878 for which the City appropriately drew down Program funds because it had not received the fire insurance funds at the time of the drawdown.
[5] The City had not used the nearly $2.1 million as of June 20, 2013.
[6] For example, the report did not include the amount of fire insurance funds that (1) the City transferred from its fire insurance escrow account or (2) was available to be used to repair, replace, or demolish damaged structures.
[7] The nearly $132,000 included $73,625 that was also included in the more than $364,000 that exceeded the amount of Program funds drawn down for activities.

the more than $7,000 in fire insurance funds into its Block Grant program account on May 16, 2012.[8]

The following table shows the calculation of the City's inappropriate drawdowns of Program funds when fire insurance funds were available.

$1,545,791	Initial fire insurance funds transferred into the Program account
525,558	Additional fire insurance funds transferred into the Program account
$2,071,349	Total fire insurance funds transferred into the Program account
(470,573)	Fire insurance funds transferred for addresses for which the City did not draw down Program funds for activities
(364,493)	Fire insurance funds transferred for addresses that exceeded the amount of Program funds drawn for activities
(131,643)	Fire insurance funds transferred for addresses that exceeded the amount of fire insurance funds available for properties
(4,878)	Fire insurance funds transferred for which Program funds were appropriately drawn
73,625	Transferred fire insurance funds added due to being included in both the more than $364,000 and nearly $132,000 reduced above
72,714	Fire insurance funds available but not transferred into the Program account[9]
$1,246,101	Program funds inappropriately drawn when fire insurance funds were available

On July 2, 2013, as a result of our audit, the City transferred $604,312 in fire insurance funds associated with 147 of the remaining 324 addresses into its Program account. The general manager of the Administration Division within the City's Buildings Department stated that the City's staff reviewed the fire insurance escrow files for the 147 addresses and the fire insurance funds were available for the addresses when it drew down Program funds to pay for the demolition costs.

The principal accountant of the Financial Resources Management Division within the City's Planning Department stated that as of August 9, 2013, the City had used for Program costs $1,718,420 of the fire insurance funds that it transferred into its Program account. This amount included $1,114,108 in fire insurance funds transferred from October 2011 through June 2012 and the more than $604,000 in fire insurance funds it transferred into its Program account in July 2013. The principal accountant also stated that as of August 30, 2013, the City had not used any additional fire insurance funds for Program costs. Therefore, as of August 30, 2013, the City had not used the remaining $131,993 in fire

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[8] As of October 31, 2013, the City had not provided sufficient documentation to support that the more than $7,000 in fire insurance funds had been appropriately transferred into its Block Grant program account.

[9] The nearly $73,000 included the nearly $52,000 for addresses associated with the nearly $2.1 million in fire insurance funds transferred and the nearly $21,000 for additional addresses associated with activities for which fire insurance funds were not transferred.

insurance funds for which it inappropriately drew down Program funds when it had fire insurance funds available.[10]

The City Did Not Use More Than $332,000 in Program Refunds Before Drawing Down Program Funds

In June 2012, a gas company refunded the City nearly $529,000 for gas cut and cap fees. Although the refund included demolition costs associated with activities, the City deposited the funds into its general account. In April 2013 and after we notified the City of the situation, it transferred $346,590 from its general account into its Program account. The City then used the funds for Program costs. However, $10,800 of the transferred amount for 12 addresses did not correspond with its activities. Further, $3,450 of the transferred amount for five addresses exceeded the amount of Program funds drawn down for the activities. On September 5, 2013, the administrative assistant III of the Demolition Division within the City's Buildings Department stated that the City should not have transferred the $14,250 into its Program account since the gas cut and cap fees for these 17 addresses were paid for with Program funds under the American Recovery and Reinvestment Act of 2009. Therefore, the City did not follow HUD's regulations at 24 CFR 85.21(f)(2) when it drew down $332,340[11] in Program funds from July 2012 through March 2013.

The City Drew Down Nearly $72,000 in Program Funds for Duplicate Demolition Costs

The City drew down nearly $144,000 in Program funds from August 2010 through September 2012 for 35 activities. However, contrary to Federal regulations at 2 CFR Part 225, section C.1 of appendix A, $71,809 of the amount was for duplicate demolition costs. The City drew down Program funds for (1) the same invoices twice and (2) different invoices that included the same addresses and work performed.

[10] The nearly $132,000 is the more than $1.2 million in Program funds the City inappropriately drew down when it had fire insurance funds available less the more than $1.1 million in fire insurance funds transferred from October 2011 through June 2012 that it had used as of August 9, 2013.

[11] The more than $332,000 is the nearly $347,000 in Program refunds the City transferred from its general account into its Program account less the more than $14,000 associated with Program funds under the Recovery Act.

The City Lacked Adequate Procedures and Controls

These weaknesses occurred because the City lacked adequate procedures and controls in the administration of its activities to ensure compliance with Federal regulations. The buildings supervisor for the Demolition Division within the City's Buildings Department stated that (1) data from the City's old system did not transfer properly to its Tidemark Advantage system and (2) there was insufficient oversight to ensure that data entered into the system was accurate. Further, the system did not identify the source of funding for the demolition costs.

The former deputy director of the City's Buildings Department stated that the number of demolition jobs that the Buildings Department processed increased by approximately 600 percent after the City was awarded Program funds. The director of the City's Planning Department stated that the Buildings Department was not structured and its staff did not have the necessary knowledge, experience, and training to be able to handle the increase in demolition jobs. Further, a lack of communication and coordination between the two departments prevented the Planning Department from being able to sufficiently monitor the Buildings Department.

Conclusion

The City lacked adequate procedures and controls in the administration of its activities to ensure compliance with Federal regulations. As a result, (1) nearly $2.3 million in Program funds was not available for eligible Program costs[12] and (2) the City inappropriately transferred $893,084 in fire insurance funds into its Program account.[13] Further, the U.S. Treasury paid more than $76,000 in unnecessary interest on Program funds that the City inappropriately drew down when it should have used available fire insurance funds.

Recommendations

We recommend that the Director of HUD's Detroit Office of Community Planning and Development

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[12] The nearly $2.3 million included the (1) more than $1.2 million in Program funds inappropriately drawn down when fire insurance funds were available, (2) more than $604,000 in fire insurance funds transferred into the Program account in July 2013, (3) more than $332,000 in Program refunds transferred from the general account into the Program account in April 2013, and (4) nearly $72,000 in Program funds drawn down for duplicate demolition costs.

[13] The more than $893,000 included the (1) nearly $471,000 the City transferred for addresses for which the City did not draw down Program funds for activities, (2) more than $364,000 that exceeded the amount of Program funds drawn down for activities, and (3) more than $58,000 that exceeded the amount of fire insurance funds available for properties (nearly $132,000 transferred less the nearly $74,000 that was also included in the more than $364,000 that exceeded the amount of Program funds drawn down for activities).

1A. Ensure that the City used the $2,050,760 in fire insurance funds ($1,718,420) and Program refunds ($332,340) for eligible Program costs.

1B. Determine whether the U.S. Treasury paid unnecessary interest on the Program funds associated with the more than $604,000 in fire insurance funds the City transferred into its Program account in July 2013. If the U.S. Treasury paid unnecessary interest, the City should reimburse HUD, for transmission to the U.S. Treasury, from non-Federal funds for the unnecessary interest the U.S. Treasury paid on the Program funds that the City inappropriately drew down for activities when it had fire insurance funds for the properties associated with the activities.

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

1C. Use for eligible Program costs, before drawing down additional Program funds, $203,802 in (1) the remaining fire insurance funds for which it inappropriately drew down Program funds when it had fire insurance funds available (nearly $132,000) and (2) Program funds drawn down for duplicate demolition costs (nearly $72,000).

1D. Reimburse HUD, for transmission to the U.S. Treasury, $76,750 from non-Federal funds for the unnecessary interest the U.S. Treasury paid on the Program funds that the City inappropriately drew down for activities when it had fire insurance funds for the properties associated with the activities.

1E. Determine whether the $872,140 in fire insurance funds that it inappropriately transferred into its Program account are associated with demolition costs paid with other Federal program funds. If the fire insurance funds are associated with demolition costs paid with other program funds, the City should transfer the fire insurance funds into the applicable program account and use the funds for eligible program costs before drawing down additional program funds.[14]

1F. Support that the more than $7,000 in fire insurance funds transferred into its Block Grant program account in May 2012 for an address was appropriate or reimburse its Program $3,833 from non-Federal funds, as appropriate, for the nearly $4,000 in Program funds that it drew down for the address.

1G. Determine for the remaining 177 addresses in its report whether fire insurance funds were available when it drew down Program funds for the

[14] The more than $872,000 is the more than $893,000 in fire insurance funds the City inappropriately transferred into its Program account less the nearly $21,000 it transferred from its Program account into its fire insurance escrow account in April 2013 to correct a duplicate transfer of fire insurance funds.

demolition costs.[15] If fire insurance funds were available, the City should (1) use the fire insurance funds for eligible Program costs before drawing down additional Program funds and (2) reimburse HUD, for transmission to the U.S. Treasury, from non-Federal funds any unnecessary interest the U.S. Treasury paid on the Program funds that it drew down for activities when it had fire insurance funds for the properties associated with the activities.[16]

1H. Support that the more than $14,000 in refunded gas cut and cap fees that was inappropriately transferred into its Program account and used for Program costs was an eligible Program use under the Recovery Act or reimburse its Program under the Recovery Act $14,250 from non-Federal funds and use the funds for eligible Program costs under the Recovery Act.

1I. Maintain accounting records that adequately identify the source and application of funds provided for its activities.

1J. Implement adequate procedures and controls to ensure that it (1) uses available fire insurance funds and refunded Program funds before drawing down Program funds and (2) does not draw down Program funds for duplicate demolition costs.

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[15] The 177 addresses are the 334 addresses in the City's report that corresponded with the City's activities, for which it did not transfer any fire insurance funds into its Program account less the 10 addresses that we reviewed and the 147 addresses that the City's staff reviewed.
[16] Any unnecessary interest the U.S. Treasury paid would be determined by HUD.

SCOPE AND METHODOLOGY

We performed our onsite audit work from November 2012 through June 2013 at the City's offices located at 65 Cadillac Square and 2 Woodward Avenue, Detroit, MI. The audit covered the period March 2009 through October 2012 and was expanded as determined necessary.

To accomplish our objectives, we reviewed

- Applicable laws; the Federal Register, dated October 6, 2008, June 19, 2009, and April 9, 2010; Federal regulations at 2 CFR Part 225; HUD's regulations at 24 CFR Parts 85 and 570; HUD's grant agreement with the City for Program funds; and HUD's Detroit Office of Community Planning and Development's monitoring reports for the City's Program and Block Grant program in 2011.

- The City's 2008 action plan substantial amendment for the Program; action plan amendments, dated December 14, 2010, August 10, 2012, and March 8, 2013; annual reports and audited financial statements for 2010 through 2012; financial records; policies and procedures; fire insurance escrow files; and Program data from the City's Tidemark Advantage system and Detroit Resources Management System and HUD's Disaster Recovery Grant Reporting system.

In addition, we interviewed the City's employees and HUD's staff.

We reviewed all 144 vouchers processed as of March 21, 2013, which totaled more than $16.8 million in Program funds. We also reviewed the nearly $2.1 million in fire insurance funds the City transferred from its fire insurance escrow account into its Program account. Further, we randomly selected and reviewed 10 of the 334 addresses in the City's report that corresponded with the City's activities, for which it did not transfer any fire insurance funds into its Program account.

We were conservative in our determination of the amount of unnecessary interest that the U.S. Treasury paid. We based our calculation on the 10-year U.S. Treasury rate using simple interest on the inappropriately drawn down Program funds from the date that the funds were deposited into the City's Program account through June 20, 2013.

We did not rely on data from the City's Tidemark Advantage system for its activities. We performed a detailed assessment of the reliability of the data and found the data was not adequately reliable for our purposes.

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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

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 operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Reliability of financial reporting – 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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The City lacked adequate procedures and controls to ensure that Federal regulations were followed in its (1) maintenance of accounting records for activities and (2) drawing down of Program funds for activities.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A			$2,050,760
1C	$203,802		
1D	76,750		
1F		$3,833	
1H		14,250	
Totals	$280,552	$18,083	$2,050,760

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.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, implementation of our recommendation will ensure that the City used fire insurance funds and Program refunds for eligible Program costs.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

<u>**Ref to OIG Evaluation**</u>	<u>**Auditee Comments**</u>

CITY OF DETROIT
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December 13, 2013

Ms. Kelly Anderson
HUD Inspector General for Audit - Region 5
77 West Jackson Boulevard, Room 2201
Chicago, Illinois 60604 – 3507

Re: City of Detroit Draft Audit Report

Dear Ms. Anderson:

Comment 1

This correspondence is to acknowledge receipt of the discussion draft audit report prepared by your office for the City of Detroit Neighborhood Stabilization Program funded demolition activities. The Planning and Development Department (P&DD) has reviewed the discussion draft audit report and concurs with the content, conclusions and recommendations contained therein. Similarly, we are committed to work with the Detroit area office of HUD to complete the restructuring of our demolition program that has been underway for a number of months.

While we conclude no formal exit conference is necessary, we appreciate your colleague Eric Lindeman agreeing to participate in an informal discussion on the audit report. With the pending transition in administrations I would use that conversation as clarity of communication and a training opportunity to institutionalize the required reforms going forward.

Comment 1

We have realigned responsibilities to enable P&DD to have significantly more control over general administration of the demolition program including use of funds, overall coordination, procurement, activity and accounting records and reports. The Building, Safety, Engineering and Environmental Department (BSEED) role has reverted back to its traditional role as a regulatory agency for the issuance of permits and carrying out field inspections.

Thank you and your colleagues for providing detailed information necessary to assist with moving our programs forward. If you have any questions or comments, don't hesitate to contact me at your convenience.

Sincerely,

Ro S Anderson

Robert Anderson, Jr.

Cc: The Honorable Dave Bing, Mayor, City of Detroit
Keith Hernandez, Director of CPD, Detroit Area Office of HUD
Marja Winters, Deputy Director of P&DD
David Bell, Interim Director, Detroit BSEED

OIG's Evaluation of Auditee Comments

Comment 1 The City's commitment to working with HUD's Detroit Office of Community Planning and Development to complete the restructuring of its demolition program as well as its realignment of responsibilities, if fully implemented, should improve the City's administration of its activities.

Appendix C

FEDERAL REGULATIONS

HUD's grant agreement with the City for Program funds, dated March 19, 2009, states that the following are part of the grant agreement: the Federal Register, dated October 6, 2008; the Housing and Economic Recovery Act of 2008; the City's submission for Program assistance; HUD's regulations at 24 CFR Part 570; and the funding approval.

The Federal Register, dated October 6, 2008, states that except as described in the Federal Register, statutory and regulatory provisions governing the Block Grant program, including the provisions in subparts A, C, D, J, K, I, and O of 24 CFR Part 570, as appropriate, should apply to the use of Program funds.

HUD's regulations at 24 CFR 85.20(b)(2) state that grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

HUD's regulations at 24 CFR 85.21(f)(2) state that grantees must disburse program income, rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

HUD's regulations at 24 CFR 570.502(a) state that recipients and subrecipients that are governmental entities, including public agencies, must comply with Office of Management and Budget Circular A-87 and 24 CFR 85.20 and 85.21.

Appendix A, section C.1, of 2 CFR Part 225[17] requires all costs to be necessary, reasonable, adequately documented, and net of all applicable credits. Section C.2 states that a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration must be given to (1) the restraints or requirements imposed by such factors as sound business practices and Federal, State, and other laws and regulations and (2) whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its employees, the public at large, and the Federal Government. Section C.4.a states that applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. As appropriate, these amounts should be credited to the Federal award either as a cost reduction or cash refund.

[17] Office of Management and Budget Circular A-87 was relocated to 2 CFR Part 225.