



City of Baton Rouge and Parish of East Baton Rouge, Office of Community Development, Baton Rouge, LA

Community Development Block Grant Program



To: Cheryl S. Breaux,
Director, Office of Community Planning and Development, 6HD

From: //signed//
Gerald R. Kirkland,
Regional Inspector General for Audit, 6AGA

Subject: The City of Baton Rouge and Parish of East Baton Rouge, LA, Office of
Community Development, Did Not Always Properly Administer Its Community
Development Block Grant Program Activities

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Baton Rouge and Parish of East Baton Rouge, LA's Community Development Block Grant program.

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 817-978-9309.



Audit Report Number: 2016-FW-1001

Date: March 21, 2016

The City of Baton Rouge and Parish of East Baton Rouge, LA, Office of Community Development, Did Not Always Properly Administer Its Community Development Block Grant Program Activities

Highlights

What We Audited and Why

We audited the City of Baton Rouge and Parish of East Baton Rouge's (City) Community Development Block Grant (CDBG) program as part of the Office of Inspector General's annual audit plan to review community planning and development funds. The audit objective was to determine whether the City properly administered and adequately documented its CDBG program activities in accordance with U.S. Department of Housing and Urban Development (HUD) regulations.

What We Found

The City did not always properly administer and adequately document its CDBG program activities in accordance with HUD regulations. Specifically, it did not maintain documentation supporting that its projects met a national objective and did not ensure that subrecipients met agreement terms. In addition, it did not follow procurement requirements as it did not always have documentation showing that it performed independent costs estimates and ensured full and open competition for some contracts and the contracts did not include all required contract provisions. Further, the City inappropriately used CDBG administrative funds to pay for other HUD program costs and could not always support how it determined amounts it repaid to the CDBG program or reconcile costs charged and funds repaid. These conditions occurred because the City did not follow HUD requirements, have CDBG program-specific written policies, and have an adequate payroll computer system. Additionally, it had a limited number of staff members, who were not properly trained, and relied on its CDBG funding to cover shortfalls in other programs. As a result, it could not support that it used more than \$1.5 million in accordance with requirements or the cost reasonableness of more than \$670,000 or provide HUD with reasonable assurance that it properly used its program funds.

What We Recommend

We recommend that the Director of HUD's New Orleans Office of Community Planning and Development require the City to (1) support or repay more than \$2.2 million, (2) amend its active contracts, (3) immediately stop using CDBG funds for other program costs, (4) provide a full reconciliation of its administrative expenditure and transfer transactions and repay any unsupported or ineligible costs identified, (5) develop CDBG program-specific policies, (6) train its staff, (7) maintain complete files, and (8) update its payroll computer system.

Table of Contents

| | |
|---|-----------|
| Background and Objective..... | 3 |
| Results of Audit | 4 |
| Finding 1: The City Did Not Maintain the Required National Objective Documentation for Its Projects..... | 4 |
| Finding 2: The City Did Not Always Follow Procurement Requirements | 8 |
| Finding 3: The City Did Not Properly Use Its Administrative Funds | 11 |
| Scope and Methodology..... | 13 |
| Internal Controls..... | 15 |
| Appendixes..... | 17 |
| A. Schedule of Questioned Costs | 17 |
| B. Auditee Comments and OIG's Evaluation | 18 |
| C. Questioned Housing Rehabilitation Contracts..... | 26 |

Background and Objective

The Community Development Block Grant (CDBG) program was established by Title I of the Housing and Community Development Act of 1974, Public Law 93-383 as amended, 42 United States Code 5301. Under the CDBG program, the U.S. Department of Housing and Urban Development (HUD) awards grants to State and local governments to aid in the development of viable urban communities. Recipients are required to use grant funds to provide decent housing and suitable living environments and to expand economic opportunities, principally for persons of low and moderate income. In addition, each CDBG-funded activity must meet one or more of the following three national objectives:

- Benefit low- and moderate-income persons,
- Aid in preventing or eliminating slums or blight, or
- Address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community.

The City of Baton Rouge and Parish of East Baton Rouge's (City) Office of Community Development administers its program using entitlement grants received from HUD to support the development of viable urban communities by providing decent housing, addressing public service and facility needs, and expanding economic opportunities of low- and moderate-income persons. Between October 2012 and September 2015, the City received more than \$9 million in CDBG funds from HUD. Of the \$9 million, the City used more than \$1.5 million to pay for administrative costs.

Activities implemented by the City included housing rehabilitation, public services, economic development, and public facilities and improvements. For its housing rehabilitation activities, the City conducted procurements for housing rehabilitation contractor services to rehabilitate properties for the benefit of low-income households. For its public service, economic development, and public facilities and improvement activities, it used 13 subrecipients to implement various projects, such as operating a job training program, building a bike path, and operating a pharmacy.

Our objective was to determine whether the City properly administered and adequately documented its CDBG program activities in accordance with HUD regulations. Specifically, we wanted to determine whether the City (1) maintained the required national objective documentation for its projects, (2) adequately documented its procurement activities, and (3) properly used program administrative funds.

Results of Audit

Finding 1: The City Did Not Maintain the Required National Objective Documentation for Its Projects

A review of file documentation for five subrecipient projects determined that the City did not maintain the required documentation to support that the projects met their intended program national objective of benefiting low- and moderate-income persons. Also, it did not ensure that subrecipients met the terms of their agreements as two subrecipients did not complete their projects by the required deadline and always submit progress reports as required by their agreements. These conditions occurred because the City did not have written policies and procedures that addressed CDBG program national objective documentation requirements and the City's program staff members were not properly trained on requirements and their duties. As a result, the City could not show that it used more than \$1.5 million paid to subrecipients in accordance with HUD requirements.

The City Did Not Ensure That Subrecipient Activities Met Requirements

The City did not maintain adequate documentation to support it used more than \$1.5 million to meet a national objective and did not ensure that two subrecipients met the agreement terms.

Files Lacked Adequate Documentation To Support National Objectives

The City did not have adequate file documentation to support that five subrecipient projects, for which it spent more than \$1.5 million, met their national objective of benefiting low- and moderate-income persons (table 1). Federal regulations¹ required the City to maintain records showing that each of its CDBG-funded activities met its intended national objective.

Table 1: Project description and payments

| Project number | Project description | Total payments |
|-----------------------|---|-----------------------|
| 1 | Recruit and train low-income persons for construction jobs in the Baton Rouge area | \$ 338,176 |
| 2 | Provide building rehabilitation services | 285,953 |
| 3 | Build a bike path along the Mississippi River | 396,836 |
| 4 | Provide prescription medications | 155,690 |
| 5 | Demolish an apartment complex and prepare the site for an updated apartment complex | 409,500 |
| | Total | \$1,586,155 |

¹ 24 CFR (Code of Federal Regulations) 570.506

- For project 1, the City did not have required supporting documentation, such as (1) a written agreement listing the job title of the permanent jobs to be created for low- and moderate-income persons and a description of actions to ensure that those persons received first consideration for those jobs, (2) a listing by job title of the permanent jobs filled, or (3) family size and income information for each low- and moderate-income person before the person was hired for the job.²
- For projects 2 and 4, the City did not have required supporting documentation (1) establishing that it designed the facility or service for the particular needs or exclusive use of low- and moderate-income persons; (2) describing how the nature and, if applicable, the location of the facility or service establishes that it is used predominantly by low- and moderate-income persons; or (3) showing the size and annual income of the family of each person receiving the benefit.³
- For project 3, although the file included a flood insurance rate map showing the boundaries of the service area, the City did not have required documentation showing the income characteristics of the families and unrelated individuals in the service area.⁴
- For project 5, although the City provided documentation showing the project addresses and client names, sex, age, race, household size, and income, the City did not provide required documentation showing (1) how it made the low- and moderate-income person determinations; (2) the total cost of the activity, including both CDBG and non-CDBG funds; and (3) the affordability of units occupied by low- and moderate-income households.⁵

The City Did Not Ensure That Subrecipients Met the Agreement Terms

The City did not ensure that subrecipients performed in accordance with the subrecipient agreements. The subrecipient agreements required each subrecipient to complete projects by a specific deadline date. However, for projects 2 and 5, the subrecipients did not complete the projects by the required deadline of July 31, 2014.

For project 2, as of January 8, 2016, the subrecipient had not completed the project. However, the City stated that it planned to amend the scope of work in the agreement to include specific building development requirements and execute a second agreement to include project reporting requirements.

For project 5, the City provided a project completion report, dated September 24, 2014, almost 2 months after the required deadline, and did not issue the final payment until December 28, 2015, more than 15 months after the completion report.

² 24 CFR 570.506(b)(5) for job creation projects

³ 24 CFR 570.506(b)(3) for limited clientele projects

⁴ 24 CFR 570.506(b)(2) for area benefit projects

⁵ 24 CFR 570.506(b)(4) for housing projects

The subrecipient agreements also required each subrecipient to provide monthly progress reports⁶ with program accomplishment and beneficiary data to show project progression. However, subrecipients did not always submit these reports. In its written response to the draft report, the City provided (1) the May 2015 project accomplishment form for project 1; (2) a progress summary report, for the month ending August 31, 2014, for project 3, and (3) an accomplishment data form, covering January 1, 2015, through May 31, 2015, for project 4. However, the City did not provide progress reports for the remaining months covered under these subrecipient agreements or any progress reports for projects 2 and 5.

The City Lacked Program-Specific Policies and Procedures and Staff Members Did Not Know Their Roles and Responsibilities

The City did not have written CDBG program-specific policies and procedures to ensure compliance with Federal CDBG program requirements. Having written policies and procedures would have helped the City ensure that it properly executed its program activities and documented that projects met a national objective. To address this issue, the City stated that it planned to develop policies and procedures specific to its CDBG program.

The City did not have written CDBG program specific policies and procedures to ensure compliance.

In addition, although the City had staff in position to oversee the program's operations and compliance, staff members stated that they did not always know their specific roles and responsibilities and had difficulty communicating and working with other staff members. For instance, one assistant director stated that she had not been trained on her specific duties and program requirements but completed tasks as needed, while working in a hostile environment with staff members who refused to communicate and follow her instructions.

Conclusion

Because the City lacked program-specific policies and procedures and staff members had not been trained on their roles and responsibilities, it did not maintain documentation to support that activities met a program national objective and ensure that subrecipients met the terms of their agreements. As a result, the City could not show that it used more than \$1.5 million paid to subrecipients for five projects in accordance with HUD requirements.

⁶ Subrecipient agreements, section VI administrative requirements; part C reporting requirements

Recommendations

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

- 1A. Support that project 1, to recruit and train low-income persons for construction jobs in the Baton Rouge area, met a national objective or repay \$338,176 to its CDBG program from non-Federal funds.
- 1B. Support that project 2, to rehabilitate a building, met a national objective or repay \$285,953 to its CDBG program from non-Federal funds.
- 1C. Support that project 3, to build a bike path along the Mississippi River, met a national objective or repay \$396,836 to its CDBG program from non-Federal funds.
- 1D. Support that project 4, to provide prescription medications, met a national objective or repay \$155,690 to its CDBG program from non-Federal funds.
- 1E. Support that project 5, to demolish an apartment complex and prepare the site for an updated complex, met a national objective or repay \$409,500 to its CDBG program from non-Federal funds.
- 1F. Develop and implement written CDBG policies and procedures with requirements, including but not limited to (1) maintaining documentation to support that its CDBG-funded projects met one or more national objectives, (2) executing written agreements for all projects, and (3) ensuring that subrecipients meet the agreement terms.
- 1G. Provide training for staff members to ensure that they know their roles and responsibilities with respect to CDBG program oversight and that documentation and other requirements are met.
- 1H. Maintain complete CDBG subrecipient files with all documentation needed to support its activities and compliance with Federal requirements.

Finding 2: The City Did Not Always Follow Procurement Requirements

The City did not always follow requirements to adequately document that it complied with Federal procurement requirements. A file review of 69 procurements determined that for 64, the City did not maintain documentation supporting that it performed independent cost estimates and ensured full and open competition. In addition, the City did not always perform contractor debarment reviews and maintain solicitation documentation. Further, all of the contracts were missing required contract provisions, and 30 did not have contract effective dates. These conditions occurred because the City did not have written policies and procedures that addressed CDBG program procurement requirements. As a result, it could not support the cost reasonableness of \$677,948 paid to contractors.

The City Did Not Always Maintain Independent Cost Estimate Documentation or Ensure Full and Open Competition

A review of procurement files for 3 contractors with 69 associated housing rehabilitation contracts and payments totaling \$720,098 determined that the City did not always comply with procurement requirements. To support the cost reasonableness of contract payments, Federal regulations required the City to maintain documentation showing that it both performed independent cost estimates⁷ and ensured full and open competition or provide justification for not doing so.⁸ However, 64 of the 69 procurement files, with payments totaling \$677,948, did not contain the required supporting documentation or justification. Specifically, 63 files lacked documentation showing that the City performed independent cost estimates, 16 of which also lacked documentation supporting full and open competition or a justification for not doing so. The remaining contract file contained an independent cost estimate but did not include documentation supporting full and open competition or justification for not doing so (table 2 and appendix C).

Table 2: Procurement Deficiencies

| Contractor name | Number of contracts | Total payments |
|-------------------------------|---------------------|------------------|
| DR AC & Home Maintenance, LLC | 14 | \$207,939 |
| Public Construction, Inc. | 15 | 161,889 |
| Home Solutions, LLC | 35 | 308,120 |
| Total | 64 | \$677,948 |

Regarding the independent costs estimates, the City explained that it no longer had the documentation to support initial inspection estimate amounts determined by its inspectors but it included the estimated dollar amount on the requisition forms before obtaining bids. Although the requisition forms included the estimated dollar amount, they did not include detailed costs,

⁷ 24 CFR 85.36(f)(1)

⁸ 24 CFR 85.36(c)(1)

documentation to support how the inspectors determined the estimated amounts or the inspector's signature certifying the accuracy of and his agreement with the amounts.

The City could not support the cost reasonableness of payments made to contractors for housing rehabilitation.

In addition to the lack of documentation showing that it performed independent cost estimates, the City did not ensure full and open competition or document its justification for not doing so. The City should have used the small purchase procurement method to procure these contracts. To ensure full and open competition when using this method, regulations required the City to obtain an adequate number of quotes,⁹ meaning more than one. However, the City obtained only 1 price quote for 17 contracts and did not document its justification for doing so. Without documenting its independent cost estimates and ensuring that it had an adequate number of quotes to ensure full and open competition, the City could not support the cost reasonableness of payments made to contractors.

The Files Had Other Documentation Deficiencies

Although it did not affect the reasonableness of the contract costs, the City did not always (1) include required contract provisions, (2) date the contracts, (3) conduct contractor debarment reviews, and (4) maintain solicitation documentation. Specifically, for the 69 procurement files reviewed,

- None of the contracts included Anti-Kickback Act or Contract Work Hours and Safety Standards Act provisions or language requiring the records retention,¹⁰
- 30 contracts did not have the effective beginning and ending dates,
- 24 contracts did not include evidence to support that the City conducted debarment reviews,¹¹ and
- 3 contracts did not include solicitation documentation.¹²

The City Lacked Policies and Procedures Addressing HUD Procurement Requirements

The City had a 2012 purchasing manual,¹³ a citywide user guide for user agencies. However, the manual did not include required CDBG program procedures to ensure that the City maintained the necessary documentation to detail the history of its procurement activities or perform all actions required for the program. Specifically, the manual lacked procedures for

- Selecting the appropriate procurement method,¹⁴
- Obtaining an adequate number of quotations from qualified sources,¹⁵

⁹ 24 CFR 85.36(d)(1)

¹⁰ 24 CFR 85.36(i)

¹¹ 24 CFR 85.35

¹² 24 CFR 85.36(c)(3)

¹³ All of the contracts reviewed were procured under the 2012 purchasing manual.

¹⁴ 24 CFR 85.36(d)

¹⁵ 24 CFR 85.36(d)(1)

- Maintaining documentation to support that it conducted an independent cost estimate,¹⁶
- Including required provisions in contract agreements,¹⁷ and
- Conducting debarment reviews.¹⁸

The City updated its purchasing manual in January 2015; however, this update only clarified procurement thresholds and added procedures for conducting debarment reviews. Thus, the manual lacked some required procedures.

Conclusion

Because the City did not have written procedures to specifically address CDBG program procurement requirements, it did not always have documentation to support that it (1) performed independent cost estimates, (2) ensured full and open competition by obtaining an adequate number of quotes, (3) included all required provisions in its contracts, (4) dated the contracts, (5) conducted contractor debarment reviews, and (4) maintained solicitation documentation. As a result, the City could not support the cost reasonableness of \$677,948 paid to contractors for 64 contracts or provide HUD with reasonable assurance that it followed CDBG program procurement rules and regulations.

Recommendations

We recommend that the Director of HUD’s New Orleans Office of Community Planning and Development require the City to

- 2A. Support the cost reasonableness of the 64 housing rehabilitation contracts or repay \$677,948 to its CDBG program from non-Federal funds.
- 2B. Develop and implement written procurement procedures specific to 24 CFR 85.36, which include but are not limited to procedures for (1) the different procurement methods; (2) retaining initial inspection estimate records or other documentation supporting the development of independent cost estimates; (3) ensuring that it obtains an adequate number of quotes to enable full and open competition; (4) maintaining all quotations obtained, solicitation documents, or bid responses; and (5) documenting contractor debarment reviews to supplement the purchasing manual.
- 2C. Amend its active housing rehabilitation contracts to include all required contract provisions and effective dates.
- 2D. Maintain complete CDBG procurement files with all documentation needed to support its activities and compliance with Federal requirements.

¹⁶ 24 CFR 85.36(f)(1)

¹⁷ 24 CFR 85.36(i)

¹⁸ 24 CFR 85.35

Finding 3: The City Did Not Properly Use Its Administrative Funds

The City inappropriately used its CDBG administrative funds to cover costs for other HUD programs, including its Housing Opportunities for Persons with Aids (HOPWA), Section 8 Housing Choice Voucher, and Supportive Housing programs and its Emergency Solutions Grant. In addition, it could not always support how it determined amounts it repaid to the CDBG program or provide a reconciliation of the costs charged and repayments made to the program. These conditions occurred because the City (1) lacked CDBG program policies and procedures addressing proper accounting for administrative costs, (2) used a payroll system with limited capacity to charge hours to multiple program accounts, (3) had a limited number of staff members, and (4) relied on its CDBG funding to cover shortfalls in other program areas. As a result, the City could not provide assurance that it had accurately allocated administrative expenditure costs to the CDBG program.

The City Spent CDBG Funds To Administer Other HUD Programs and Could Not Always Support Program Repayments

A review of the City's records for administrative costs totaling more than \$1.5 million determined that the City used its CDBG funds to pay for other programs' administrative costs and could not support how it determined amounts it repaid to the CDBG program. Federal regulations restricted the City from charging any cost allocable to one program to other programs to overcome fund deficiencies or for other reasons and required the City to support its accounting records with source documentation.¹⁹ However, a review of the City's accounting records identified 586 transfer transactions totaling \$235,726, related to four other HUD programs, including its HOPWA, Section 8 Housing Choice Voucher, and Supportive Housing programs and its Emergency Solutions Grant. The City explained that these transactions represented repayments to the CDBG program since it used CDBG funding to administer its other HUD programs and then reimbursed the CDBG program.

Of the 586 transfer transactions, review of the file documentation for 8 HOPWA transactions determined that 5 files totaling \$38,344 did not contain adequate documentation showing how the City calculated the amounts repaid to the CDBG program. The City also provided a spreadsheet, which it claimed it used to track repayments to the CDBG program. However, a review of this spreadsheet determined that the repayments did not reconcile to the transfer transactions in the accounting records. Therefore, we could not verify that the City properly allocated costs among the programs, appropriately repaid its CDBG program fund, and spent its CDBG program administrative funds in accordance with HUD's requirements.

The City Lacked Proper Controls Over Its Administrative Expenditures and Program

The City lacked proper controls as it did not have written program policies and procedures addressing how it should manage its CDBG program administrative costs. In addition, the City did not have enough staff members to perform program duties. City staff voiced concern regarding general understaffing, stating that in the last few years, the personnel allotment had been cut nearly in half and about a half dozen vacancies remained for many months. Therefore,

¹⁹ 2 CFR Part 225, appendix A, and 24 CFR 85.20(b)(6)

it had backlogged assignments, causing the City to pull staff from other programs to assist with the workload. The City also stated that due to limited staff availability and a high staff turnover rate, its staff often worked on multiple programs during any one pay period.

Instead of properly allocating the staff hours among the different programs and charging the appropriate program accounts, the City paid all staff salaries from its CDBG funds and then charged the time worked to the correct programs as reimbursement to the CDBG program. The City stated that it used this method because its payroll computer system had limited capacity and did not allow for charging time to multiple program accounts. Proper controls would have assisted the City in correcting this deficiency.

The City relied on CDBG funding to cover funding shortfalls for other programs.

City staff also stated that the City's administration would not leverage grant funds with general revenue, causing a shortfall in funds to cover all operational expenses. To address these issues, the City planned to reduce administrative costs by having one staff member per program. Thus, it would no longer need to rely on CDBG funding to cover funding shortfalls for programs.

Conclusion

Because the City lacked adequate controls over its administrative expenditures, including written CDBG program policies and procedures; had a limited number of staff members; and did not have an adequate payroll system, it could not provide assurance that it had accurately allocated administrative expenditure costs to the CDBG program.

Recommendations

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

- 3A. Immediately stop using CDBG program funds to cover other program costs.
- 3B. Provide a full reconciliation, to include supporting documentation, of its CDBG administrative expenditure and transfer transactions covering October 2012 through April 2015 to ensure that it properly accounted for its funds and repay its CDBG program from non-Federal funds for any unsupported or ineligible costs.
- 3C. Develop and implement written CDBG procedures to ensure that program funds are properly accounted for and are used only to administer the CDBG or other allowed programs.
- 3D. Maintain complete CDBG expenditure files with all documentation needed to support its transactions and compliance with Federal requirements.
- 3E. Update its payroll system to ensure that it has the capacity to charge time to the appropriate program(s).

Scope and Methodology

We conducted our audit at the City's office in Baton Rouge, LA, and the HUD Office of Inspector General's (OIG) offices in New Orleans and Baton Rouge, LA, between June 2015 and January 2016. Our audit scope generally covered the City's CDBG program for the period January 1, 2013, through April 30, 2015. We expanded the scope as necessary to accomplish our audit objective.

To accomplish our objective, we reviewed

- Relevant laws, regulations, and program guidance.
- The City's organizational structure and written policies for the program.
- The City's audit and HUD monitoring reports.
- The City's grant agreements and action plans.
- The City's subrecipient agreements and monitoring documentation.
- Expenditure and project reports from HUD's Integrated Disbursement and Information System.
- Files for the sampled CDBG-funded projects to determine whether program national objectives were adequately documented.
- Files for the sampled CDBG-funded procurements to determine whether the City complied with Federal procurement rules and regulations.
- Administrative expenditures to determine whether the expenditures exceeded the 20 percent threshold and whether the funds were used for allowable purposes.

We also interviewed HUD and City staff.

Using a universe of 16 projects administered between January 1, 2013, and April 30, 2015, with expenditures totaling more than \$2.2 million, we selected for review a sample of 5 projects, with expenditures totaling \$1,586,155, based on the highest dollar amount spent because we knew enough about the population to identify a relatively small number of items of interest. Although this approach did not allow us to project the results of the sample to the population, it was sufficient to meet the audit objective. We reviewed the City's file documentation for the five sampled projects to determine whether the City maintained documentation to support its basis for designating its CDBG-funded projects as meeting one or more of the three program national objectives and whether it ensured that subrecipients met the terms of their agreement. We compared HUD's data to the City's data but did not perform a complete assessment of computer-processed data regarding the national objective review because we did not rely heavily on computer data to develop our conclusions.

Using a universe of 21 housing rehabilitation contractors with a total of 144 associated contracts procured between January 1, 2013, and April 30, 2015, and expenditures totaling more than \$1.4 million as of April 30, 2015, we selected for review a sample based on the highest dollar amount

paid to contractors because we knew enough about the population to identify a relatively small number of items of interest. The sample included 3 contractors with 69 associated contracts and expenditures totaling \$720,098. Although this approach did not allow us to project the results of the sample to the population, it was sufficient to meet the audit objective. We reviewed the City's file documentation for the 69 sampled contract files to determine whether the City procured its contracts in accordance with Federal regulations. We did not assess computer-processed data for the procurement review because we did not rely on computer data to develop our conclusions.

For the administrative expenditure review, we compared administrative expenditure data covering October 2012 through April 2015²⁰ from HUD's Integrated Disbursement and Information System with the total grant amount and determined whether costs exceeded the 20 percent limit. In addition, based upon findings cited by its independent auditor for fiscal years 2013 and 2014 regarding the City's use of CDBG funds to pay for other HUD program costs, we also reviewed the City's transaction listing and identified 922 transfer transactions totaling \$401,753. Of the 922 transfer transactions, we identified 586 totaling \$235,726, related to four other HUD programs, namely the HOPWA, Section 8 Housing Choice Voucher, and Supportive Housing programs and the Emergency Solutions Grant. Using the universe of 586 transfer transactions related to the 4 HUD programs, we selected for review a sample, based on dollar amount, of 8 HOPWA transactions totaling \$54,504 because we knew enough about the population to identify a relatively small number of items of interest. Although this approach did not allow us to project the results of the sample to the population, it was sufficient to meet the audit objective. We reviewed the file documentation for the eight transactions to determine whether the City adequately supported program repayments in accordance with Federal regulations. We assessed the reliability of the City's transaction listing and determined that it was generally reliable.

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.

²⁰ We obtained data through April 30, 2015. The City's fiscal year ended September 30, 2015.

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 objective:

- Effectiveness and efficiency of operations – Policies and procedures implemented by the City to ensure that it effectively administered its CDBG program activities, including meeting program national objectives and procuring necessary contracts.
- Effectiveness and efficiency of operations – Policies and procedure implemented by the City to ensure that it used its CDBG grant funds efficiently, including ensuring that such use of funds was reasonable and necessary with respect to subrecipient and contractor payments and administrative expenditures.
- Compliance with applicable laws and regulations – Policies and procedures implemented by the City to ensure that it administered and adequately documented its CDBG program activities in compliance with HUD requirements regarding program national objectives, procurements, and administrative expenditures.

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 maintain documentation required to support that its CDBG-funded activities met the intended program national objectives and did not ensure that subrecipients met their agreement terms (finding 1).
- The City did not always follow procurement requirements as it did not always have documentation to support that it (1) performed independent cost estimates, (2) ensured full and open competition by obtaining an adequate number of quotes, (3) included all required provisions in its contracts, (4) dated the contracts, (5) conducted contractor debarment reviews, and (4) maintained solicitation documentation (finding 2).
- The City did not properly use its administrative funds as it used these funds to cover costs for other HUD programs and could not always support how it determined amounts it repaid to the CDBG program or provide a reconciliation of the costs charged and repayments made to the CDBG program fund (finding 3).

Appendixes

Appendix A

Schedule of Questioned Costs

| Recommendation number | Unsupported 1/ |
|------------------------------|-----------------------|
| 1A | \$ 338,176 |
| 1B | 285,953 |
| 1C | 396,836 |
| 1D | 155,690 |
| 1E | 409,500 |
| 2A | 677,948 |
| Totals | \$2,264,103 |

- 1/ 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



City of Baton Rouge-Parish of East Baton Rouge
Office of the Mayor-President
Office of Community Development

February 29, 2016

Mr. Gerald R. Kirkland, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Office of Audit (Region 6)
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102

Dear Mr. Kirkland:

Enclosed is the written response to draft audit report entitled, "The City of Baton Rouge and Parish of East Baton Rouge, Office of Community Development, Baton Rouge, LA" dated February 17, 2016.

Thank you for your consideration of the information provided. If you have any questions, please contact Brad Sweazy, Director, Office of Community Development, City of Baton Rouge, Parish of East Baton at (225) 389-3039.

Sincerely,

A handwritten signature in blue ink that reads "Bradley Sweazy".

Bradley Sweazy
Director, Office of Community Development

RESPONSE TO AUDIT

Finding 1: The City Did Not Maintain the Required National Objective Documentation for Its Projects

Finding 1: Management Response

1A. Capital Region Builders – Job Training Project

Comment 1

- The City-Parish Program Analyst has collected and retained each and every student file that was trained and placed under the CRBF – HBI project. The HBI project held approximately four classes while under contract with the City Parish. As of April 2015 the following are the outcomes of the project.
 1. (95) Total Enrollments (exceeded goal of 80 enrollments)
 2. (21) placements industry related— (exceeded national goal of 1 full-time industry job for every \$35,000 spent (\$500,000/35,000=14.29 placements required))
 3. (49) PACT completed program/earned certificate (52% completion rate)
 4. (31) Total Placements (63% of program completers were placed in a job)
 5. (8) placements non-industry related
 6. (2) placements were education (community college)

Comment 6

- A sample of documents reviewed is attached for review.
- The City-Parish always ensure that the sub recipient of CDBG funds submit monthly reports called the Accomplishment Data form that is specifically designed to cater to the specific needs of the project.
- The City-Parish also requires that a narrative of the projects progress is submitted once a month on the draw request that is due by the 5th. A sample of the Accomplishment Data form is provided for review.

Comment 1

- Job verification forms were submitted each month as students were placed as the project is a 12-week course so students are not placed as they enroll.

Comment 2

1B. Council on Aging Project

- The Council on Aging project is under two MOUs and based on the finding the City Parish believes only one of the MOUs was reviewed. Please attachments.
- The City Parish executed two MOUs, each with its own corresponding IDIS number, to cover spending on different pieces for the project. We are consolidating the interdepartmental working agreements into one MOU, and consolidating the two IDIS activities into a single IDIS activity. We are also, completing an environmental review that will cover the entire scope of the project, and executing a CEA with the COA which

Comment 2

will govern the use of the property and ensure that the project is in compliance with all CDBG program requirements. Also, a restrictive covenant to that effect is being recorded.

- The project is not finished and is still under development Demand for repayment of money spent at this stage is premature because a national objective will be met when the project is complete.

Comment 3

1C. Department of Public Works - Mississippi Bike Path Project

- Census Tract demographics established the area as a low income area.
- The City-Parish received monthly Davis Bacon reports, along with application and certification of payment, and continuation sheets. This project is an area benefit project requiring census tract information; therefore, individual beneficiary data was not collected. The project was monitored with monthly reports referenced as 1) Davis Bacon reports, 2) application and certification of payment and 3) continuation sheets. Project progress was signed off by the Architect verifying the status and payment request.

Comment 6

1D. Saint Vincent DePaul – Pharmacy Program

- The City-Parish monitored the SVDP Pharmacy project to ensure that it meets the national objective to provide prescription medication to low income persons with chronic illnesses. The City-Parish took a sampling of (95) clients served to ensure that eligibility determination was met. During the contract period (2,378) low-income persons were served and able to fill (31,031) prescriptions to low income persons.
- The City-Parish collected (95) applications for monitoring of the national objective for SVDP. SVDP is located in the Mid-City area where demographically it is a low moderate area. The project services low income households. Monthly reports are provided including narratives of the progress of the project. A sample for your review is attached.
- The City-Parish ensures that the sub recipient is performing at a level of the performance goals in the agreement. The Accomplishment data form is provided each month along with the narrative on the request for reimbursement form. A sample of the form is attached.

Comment 4

Comment 6

1E. East Baton Rouge Parish Housing Authority – Demolition Project

- The City-Parish awarded funds to the East Baton Rouge Housing Authority to do demolition of a apartment complex located in a low income area census tract. The project did not require regular accomplishment data forms because tenants where not occupying the units. However, weekly Davis Bacon reports, along with application and certification of payment, and continuation sheets submitted for payment by the subrecipient through the architect/developer of the project, which indicates the progression of the project.

Comment 6

Comment 5

- The City-Parish did ensure that the demolition portion of the project was completed by the terms of the agreement. However, accomplishment data and retainage could not be released until the project was completely developed.
- The City-Parish has received the list of tenants that were certified by the EBRPHA to occupy the units. Clear lien certificate and Certificates of occupancy was obtained once the project was complete. The retainage of the project was released. Close-out form along with rent rolls was provided for completion of the project to the City-Parish.

Finding 2: The City Did Not Always Follow Procurement Requirement

Finding 2: Management Response

Comment 7

2D. All files included an independent cost estimate which is provided for on the project's requisition on all files. All files included supporting bid documents. Schedule of Payment for all purchases is found in the bid packet on the page entitled "Instructions to Bidders"; Item #10. All purchases except for one had documentation supporting Debarment reviews were conducted.

Comment 8

- Attached are Federal Provisions and Contract Provisions for Non-Federal entity contracts under Federal awards included in The City's bid packages.
- Attached excel spreadsheet with responses to procurement deficiencies for the following projects: DR AC & Home Maintenance, LLC, Public Construction, Inc. and Home Solutions, LLC.

Comment 9

Finding 3: The City Did Not Properly Use Its Administrative Funds

Finding 3: Management Response

3A. The City-Parish Office of Community Development will develop and implement a timesheet and payroll policy and procedure whereby personnel costs are charged directly to the respective program at the time each payroll period is posted.

3B. The City-Parish Office of Community Development, along with the City-Parish Finance Department, will prepare a reconciliation of CDBG administrative expenditures and transfer transactions for the period of October 2012 through April 2015; including support documentation.

3C. In addition to Corrective Action 3A, the City-Parish Office of Community Development, will establish and implement written CDBG procedures to ensure that program funds are properly accounted in accordance with 2 CFR Part 225, appendix A, 24 CFR 85.20 (b) (6), and grant requirements.

3D. Corrective Action 3A and 3C will incorporate policies and procedure to ensure expenditure files are properly maintained with all supporting documentation to comply with Federal guidelines and grant requirements.

3E. The City-Parish is in the process of selecting and implementing a new ERP system which will have a robust time tracking system that will automatically interface to the payroll and financial systems. The new time keeping system will have the capabilities to allocate hours worked to multiple CDBG programs resulting in a direct charge to those programs at the time payroll is posted into the general ledger. The new ERP system is expected to be fully implemented by the end 2018.

OIG Evaluation of Auditee Comments

Comment 1 For project 1, the City stated that it collected and retained the file of every student who was trained and placed under the project. The City provided for review a summary of the project outcomes, including total program enrollments and total placements upon program completion and a sample of documents for one program participant, which included a student application and self-declaration of income and employment verification forms. However, the City did not provide a listing by job title of the permanent jobs filled or the family size and income information for each low- and moderate-income person before the person was hired for the job as required. Therefore, we did not revise our conclusion.

Comment 2 For project 2, in response to our conclusion that it exceeded its subrecipient agreement by \$245,450 without written documentation, the City stated that it executed two memorandums of understanding, one of which we had not reviewed. The City provided copies of both memorandums of understanding with its response. Based on our review of this additional documentation, we removed the issue from the report.

Additionally, the City stated that the project was not finished and was still under development and demand for repayment of money spent at this stage was premature because a national objective would be met when the project was complete. We did not demand repayment but, rather, recommended that the City support that its project met the intended national objective or if unable to do so, repay its CDBG program from non-Federal funds. Because the City still did not provide documentation (1) establishing that it designed the facility or service for the particular needs or exclusive use of low- and moderate-income persons; (2) describing how the nature and, if applicable, the location of the facility or service establishes that it is used mainly by low- and moderate-income persons; or (3) showing the size and annual income of the family of each person receiving the benefit, we stand by our original conclusion that the City did not support that its project met a national objective.

Comment 3 For project 3, the City stated that census tract demographics established the area served as a low-income area and that because the project was for area benefit, individual beneficiary data were not collected. The City also provided an Integrated Disbursement and Information System report. Although the report included the total number and percentage of low- to moderate-income persons in the area, the City did not provide the census tract or other documentation supporting the figures in the report, preventing us from verifying its accuracy. We did not revise the finding.

Comment 4 For project 4, the City stated that it monitored this project to ensure that it met the intended national objective and took a sample of clients served to ensure that eligibility requirements were met. The City also provided a summary table of beneficiary income data and one client application with client income

information. Although this documentation showed the size and annual income for one client served, it showed neither the size and annual income for all persons receiving the benefit nor that the nature or location of the facility established that it was used mainly by low- and moderate-income persons as required. Therefore, we did not revise the finding.

Comment 5 For project 5, the City stated that the demolition portion of the project was completed by the terms of the agreement. We disagree. As stated in the report, the project completion report was dated almost 2 months after the required deadline, and the final payment was not issued until more than 15 months after the completion report.

The City also stated that it received the list of tenants certified to occupy the units, obtained the clear lien certificate and certificate of occupancy, released the retainage, and obtained rent rolls once the project was complete. It also provided rent rolls illustrating the amount of rent charged per unit and an accomplishment data form showing the project addresses and client names, sex, age, race, household size, and income. We revised the finding to show the City's submission of the rent rolls. However, the City did not provide documentation showing how it made the low- and moderate-income person determinations; the total cost of the activity, including both CDBG and non-CDBG funds; or the affordability of units occupied by the low- and moderate-income households. Therefore, we did not revise the unsupported costs in the finding.

Comment 6 Regarding the required monthly progress reports for its subrecipients, the City stated that its subrecipient for project 5 was not required to provide monthly progress reports; accomplishment data and retainage could not be released until the project was completely developed; and the weekly Davis-Bacon reports, along with application and certification of payment documents and the continuation sheets, indicated the progression of the project. We disagree. The City did not provide documentation to support its claim and, although comprehensive project accomplishment data may not have been available until project completion, section 5, part C, of the subrecipient agreement required submission of the reports monthly.

The City also provided (1) the May 2015 project accomplishment form for project 1, (2) a progress summary report for the period ending August 31, 2014, for project 3, and (3) an accomplishment data form covering January 1, 2015, through May 31, 2015, for project 4. The City did not provide progress reports for project 2 or the remaining months covered under the subrecipient agreements for projects 1, 3, and 4. We revised the report to reflect the submission of this documentation.

Comment 7 The City stated that all files included an independent cost estimate, which was contained in the project's requisition. We disagree. We acknowledged that the files included a requisition. However, as stated in the report, the requisitions did

not include detailed costs, documentation to support how the inspectors determined the estimated amounts or the inspector's signature certifying the accuracy of and the inspector's agreement with the amounts. The City provided no additional documentation showing how it arrived at the costs in its written response. Therefore, we did not revise the finding.

Comment 8 The City stated that (1) all files included supporting bid documents, (2) a schedule of payment for all purchases was included in the bid packet, and (3) all purchases except one had documentation supporting that debarment reviews were conducted. The City also provided a copy of Federal provisions and a spreadsheet with responses to the procurement deficiencies. However, the City did not provide documentation to support its claims or its responses in the spreadsheet. We did not revise the finding.

Comment 9 The City stated that it would develop and implement a timesheet and payroll policy and procedure to charge personnel costs directly to the respective program at the time each payroll period was posted. Additionally, the City stated that it would (1) prepare a reconciliation of CDBG administrative expenditures and transfer transactions for the period October 2012 through April 2015, (2) establish and implement written CDBG procedures to ensure that program funds would be properly accounted for in accordance with Federal regulations, (3) establish policies and procedures to ensure that expenditure files would be properly maintained with supporting documentation as required, and (4) implement a new time tracking system by the end of calendar year 2018. We acknowledge the City's efforts in addressing the findings and recommendations.

Appendix C

Questioned Housing Rehabilitation Contracts

| DR AC & Home Maintenance, LLC | | | |
|-------------------------------|------------------|-----------------------------------|---|
| Contract number | Contract amount | Lack of independent cost estimate | Lack of full and open competition (one quote) |
| 1 | \$ 6,968 | X | |
| 2 | 6,733 | X | |
| 3 | 24,298 | X | X |
| 4 | 5,342 | X | X |
| 5 | 24,999 | X | |
| 6 | 21,081 | X | |
| 7 | 18,950 | X | |
| 8 | 3,810 | X | |
| 9 | 24,975 | X | |
| 10 | 6,165 | X | X |
| 11 | 24,320 | X | X |
| 12 | 3,000 | X | |
| 13 | 18,548 | X | X |
| 14 | 18,750 | X | |
| Totals | \$207,939 | 14 | 5 |

| Public Construction, Inc. | | | |
|---------------------------|------------------|-----------------------------------|---|
| Contract number | Contract amount | Lack of independent cost estimate | Lack of full and open competition (one quote) |
| 1 | \$ 12,762 | X | X |
| 2 | 7,239 | X | X |
| 3 | 7,200 | X | |
| 4 | 8,054 | X | |
| 5 | 7,454 | X | |
| 6 | 15,250 | X | X |
| 7 | 3,960 | X | |
| 8 | 12,700 | X | X |
| 9 | 15,524 | X | X |
| 10 | 7,125 | X | |
| 11 | 7,995 | X | |
| 12 | 21,000 | X | |
| 13 | 9,763 | X | |
| 14 | 13,499 | X | |
| 15 | 12,364 | X | |
| Totals | \$161,889 | 15 | 5 |

| Home Solutions, LLC | | | |
|---------------------|------------------|-----------------------------------|---|
| Contract number | Contract amount | Lack of independent cost estimate | Lack of full and open competition (one quote) |
| 1 | \$ 6,300 | X | |
| 2 | 4,600 | X | |
| 3 | 6,100 | | X |
| 4 | 8,000 | X | |
| 5 | 4,550 | X | |
| 6 | 6,900 | X | |
| 7 | 7,200 | X | |
| 8 | 5,000 | X | |
| 9 | 24,800 | X | |
| 10 | 5,200 | X | |
| 11 | 4,550 | X | X |
| 12 | 8,500 | X | |
| 13 | 9,500 | X | |
| 14 | 8,500 | X | |
| 15 | 5,560 | X | |
| 16 | 4,400 | X | |
| 17 | 7,100 | X | |
| 18 | 3,990 | X | |
| 19 | 17,500 | X | X |
| 20 | 8,500 | X | |
| 21 | 3,890 | X | X |
| 22 | 4,500 | X | |
| 23 | 5,800 | X | X |
| 24 | 8,450 | X | |
| 25 | 20,200 | X | |
| 26 | 24,850 | X | |
| 27 | 2,500 | X | |
| 28 | 9,600 | X | |
| 29 | 6,900 | X | |
| 30 | 8,000 | X | X |
| 31 | 5,700 | X | |
| 32 | 8,990 | X | |
| 33 | 6,900 | X | X |
| 34 | 10,100 | X | |
| 35 | 24,990 | X | |
| Totals | \$308,120 | 34 | 7 |