

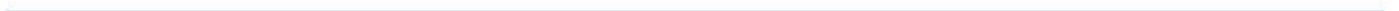


# Sacramento Housing and Redevelopment Agency

## Community Development Block Grant Program

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

**Audit Report Number: 2018-LA-1006  
July 25, 2018**





**To:** Kimberly Y. Nash, Director, San Francisco Office of Community Planning and Development, 9AD

**//SIGNED//**

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

**Subject:** The Sacramento Housing and Redevelopment Agency, Sacramento, CA, Did Not Always Use Community Development Block Grant Funds in Accordance With HUD Requirements or Its Own Policies

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 Sacramento Housing and Redevelopment Agency'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 website. 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 213-534-2471.



**Audit Report Number: 2018-LA-1006**

**Date: July 25, 2018**

**The Sacramento Housing and Redevelopment Agency, Sacramento, CA, Did Not Always Use Community Development Block Grant Funds in Accordance With HUD Requirements or Its Own Policies**

## Highlights

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### What We Audited and Why

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We audited the Sacramento Housing and Redevelopment Agency's Community Development Block Grant (CDBG) program, based on an Office of Inspector General risk assessment and U.S. Department of Housing and Urban Development (HUD) concerns. The objective of our audit was to determine whether the Agency used the City of Sacramento's CDBG funds in accordance with HUD requirements and adequately monitored its subrecipients.

### What We Found

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The Agency adequately monitored its subrecipients. However, it did not always use CDBG funds in accordance with HUD requirements or its own policies. Specifically, it did not (1) seek competition or maintain adequate documentation for four of its activities, (2) properly classify three capital improvement projects, or (3) ensure that one activity continued to meet national objective requirements. Additionally, the Agency paid for \$283 in unallowable costs. This condition occurred because the Agency disregarded HUD regulations and its own procurement policy. As a result, HUD had no assurance that \$385,414, which the Agency spent on four activities, was a fair and reasonable cost. Also, the Agency did not properly classify three activities totaling \$119,150.

### What We Recommend

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We recommend that the Director of HUD's San Francisco Office of Community Planning and Development require the Agency to (1) provide supporting documentation for four procurements made without adequate competition totaling \$385,414; (2) support that three feasibility studies met a final cost objective, reclassify the activities as administration and planning, or repay the program \$55,200 from non-Federal funds; (3) reimburse its program \$283 from non-Federal funds for unallowable costs; (4) provide training to its employees regarding allowable costs; and (5) provide training on CDBG and procurement regulations to staff involved in CDBG activities.

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# Background and Objective

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The Sacramento Housing and Redevelopment Agency receives annual Community Development Block Grant (CDBG) entitlement allocation funds from the U.S. Department of Housing and Urban Development (HUD). The Agency is a joint powers authority created in 1982 to provide common professional staffing to the City and County of Sacramento to administer and manage its housing authorities and the city and county Federal housing and community development entitlement funds. The Agency uses its annual CDBG allocation to fund projects and activities undertaken to address the housing and community development needs of low- and moderate-income persons in the City and County of Sacramento. Federal regulations at 24 CFR (Code of Federal Regulations) 570.200 require that CDBG funds be used for eligible activities that meet one of three national objectives:

- provide benefit to low- and moderate-income persons,
- aid in the prevention or elimination of slums or blight, or
- meet a need having a particular urgency.

The Agency is responsible for administering and overseeing the use of the City of Sacramento's CDBG funds. The CDBG program is guided by 24 Code of Federal Regulations (CFR) Part 570.

The Agency's fiscal year runs from January 1 to December 31 and it received the following City of Sacramento CDBG funds for fiscal years 2015 to 2017.

Fiscal year	Amount
January 1 – December 31, 2015	\$4,335,943
January 1 – December 31, 2016	4,420,123
January 1 – December 31, 2017	4,442,443
<b>Total CDBG funds</b>	<b>13,198,509</b>

Our audit objective was to determine whether the Agency used the City of Sacramento's CDBG funds in accordance with HUD requirements and adequately monitored its subrecipients.

# Results of Audit

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## **Finding: The Agency Did Not Always Use CDBG Funds in Accordance With HUD Requirements or Its Own Policies**

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The Agency did not use CDBG funds in accordance with HUD requirements or its own policies. Specifically, it did not (1) always seek competition or maintain adequate documentation for its activities, (2) properly classify three activities, or (3) ensure that one activity met national objective requirements. Additionally, the Agency paid for unallowable costs. This condition occurred because the Agency disregarded HUD regulations and its own procurement policy. As a result, HUD had no assurance that \$385,414, which the Agency spent on four activities, was a fair and reasonable cost. Also, the Agency did not properly classify three activities totaling \$119,150.

### **The Agency Did Not Always Comply With HUD Procurement Regulations and Its Own Procurement Policy**

The Agency did not always comply with its own procurement policy or HUD regulations. Specifically, it did not seek adequate competition or maintain adequate documentation for 4 of the 10 activities reviewed. As a result, HUD had no assurance that it received the best value for the activities listed in the following table.

Activity	Lack of competition	Lack of documentation	Conflict of interest	Amount
Emergency repair program	x			\$272,569
Food incubator study	x	x	x	50,000
Colonial Heights Library	x			48,895
Boys and Girls Club study		x		13,950
<b>Total activities</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>385,414</b>

#### Emergency Repair Program

The Agency selected contractors from a list of seven prequalified contractors to perform work for its emergency repair program. The Agency developed this list from a request for quotations procurement process. However, it obtained a price quote from only the contractor that performed the work. The Agency did not obtain additional quotes for work over \$3,000 as required by its own procurement policy (see criteria in Appendix C).<sup>1</sup> It funded repairs for 59

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<sup>1</sup> Small purchase procedures - For any amounts above the micropurchase threshold but not exceeding \$150,000, the Agency must obtain a reasonable number of quotes (preferably three or more). For purchases of less than \$3,000, also known as micropurchases, only one quote is required if the quote is considered reasonable.

low-income homeowners in which the cost of the work exceeded \$3,000. It restricted competition for these 59 repairs by obtaining a quote from only the vendor that performed the repair. The repairs totaled \$272,569.

#### Food Incubator Study

The Agency improperly solicited a proposal from only one source for a food incubator feasibility study. The Agency was unable to provide sufficient justification for using noncompetitive procedures. It could not show that the contractor selected was the only contractor capable of performing the work as required by HUD regulations.<sup>2</sup> Also, it did not provide documentation to support efforts made to identify other contractors capable of performing the study as required by its own procurement policy. The Agency based its decision to get only one quote from an outdated procurement policy that did not comply with HUD regulations. Additionally, it awarded the food incubator study contract to the property owner of the proposed food incubator site. This relationship violated the “interests of officials” provision of the contract, which states that the “contractor covenants that he has no interest and will not acquire any interest, direct or indirect, in any portion of the project to which the contract pertains.” The contractor’s ownership interest in the feasibility study property may have influenced the results of the study.

#### Colonial Heights Library

The Colonial Heights Library project included rehabilitation work of a kitchen and community room and the construction of a tool shed. The Agency violated procurement requirements and approved change orders totaling \$48,895 for disabled parking spaces and work around planter boxes that were not part of the original scope of work and were not bid on by contractors responding to the solicitation.<sup>3</sup> As a result, the \$48,895 in change orders for parking spaces and work done around planter boxes was awarded without competition.

#### Boys and Girls Club Study

The Agency entered into a subrecipient agreement with the Boys and Girls Club of Greater Sacramento to perform a feasibility study of a freestanding Boys and Girls Club clubhouse in the Del Paso Heights community. The Boys and Girls Club contacted firms to perform the study. However, it did not maintain records sufficient to detail the history of the procurement and had no documentation to support that \$13,950 paid for the study was reasonable.<sup>4</sup> The Agency provided the Boys and Girls Club’s written statement, which described its efforts to contact several firms to do the study. This statement, written in response to our audit, said that the price paid was based on estimates and information received from these firms. However, the statement did not include written cost estimates to support the cost of the study.

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<sup>2</sup> 2 CFR 200.320(f)

<sup>3</sup> 2 CFR 200.319(a)

<sup>4</sup> 2 CFR 200.318(i)

### **The Agency Did Not Properly Classify Three Activities**

The Agency classified three activities reviewed as capital improvement project scoping activities. It classified capital improvement project scoping activities as activity delivery costs for activities that had not been fully developed. Activity delivery costs are those allowable costs incurred for implementing and carrying out eligible CDBG activities. The table below identifies these three activities.

<b>Activity</b>	<b>Amount</b>
Entrepreneur center feasibility study	\$55,200
Food incubator feasibility study	50,000
Boys and Girls Club feasibility study	13,950
<b>Total unsupported</b>	<b>119,150</b>

HUD requirements state that a grantee must be aware of the risk associated with initiating a project that does not materialize or reach fruition and, therefore, does not meet a national objective or final cost objective. In such cases, the incomplete activity will most likely be determined ineligible and the staff costs disallowed or possibly considered general administrative costs.<sup>5</sup>

It is unclear whether the three feasibility studies met a national objective or their respective final cost objectives. The Agency stated that it had no specific plan to proceed with the construction of a new Boys and Girls Club but it planned to proceed with the food incubator and entrepreneur center. The Agency had not entered an activity into HUD's Integrated Disbursement and Information System (IDIS)<sup>6</sup> for the three projects, which would support the final cost objectives. Without meeting a national objective or final cost objective, the costs for the three studies were ineligible as activity delivery costs. For this reason, the Agency will need to reclassify these costs. If the Agency reclassifies these costs to program administrative costs, it will need to ensure that the reclassification does not cause the planning and administration cost objective to exceed the 20 percent cap.<sup>7</sup>

### **The Agency Did Not Ensure That One Activity Met an Ongoing National Objective**

The installation of a tool shed at the Colonial Heights Library initially met a national objective. The national objective for the project was low-moderate area benefit. The Agency was able to support that the library was located in a low- to moderate-income area. However, HUD

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<sup>5</sup> Notice CPD [Office of Community Planning and Development] 13-07(III)(A)(6)

<sup>6</sup> IDIS is a nationwide database that provides HUD with current information regarding the program activities across the Nation. IDIS provides timely information on grantee performance, needs, and trends that allows HUD to monitor grantee expenditures and accomplishments. Grantees can use system reports to manage their CPD formula grant programs more effectively.

<sup>7</sup> 24 CFR 570.200(g)

regulations<sup>8</sup> state that the activity must provide benefits that are available to all of the residents in a particular area. We performed a site visit to the library and observed that the tool shed was securely boarded up and not available for residents to use. The circulation supervisor at the library stated that the library boarded up the shed shortly after completion because individuals kept breaking into it. We determined that the tool shed did not provide a benefit to the residents of this particular area as required. As a result, the \$29,704 spent on building the shed was unsupported.<sup>9</sup>

Because of our audit, the Agency promptly contacted the Sacramento Public Library to determine the library's plan for the tool shed going forward. The library stated that it had attempted to implement security measures but the vandalism continued. The library stated that the best and safest course of action was to reimburse the Agency for the cost of the shed. The library reimbursed the Agency the \$29,704 spent to build the shed.

### **The Agency Paid for Unallowable Costs**

The Agency reimbursed one of its subrecipients for the delivery of bottled water during our audit period. Only costs necessary and reasonable for the performance of the Federal award are allowed.<sup>10</sup> The bottled water service was not necessary for the performance of the Federal award. As a result, the \$283 that the Agency spent on bottled water was not an allowable cost.

### **Conclusion**

The Agency did not always seek competition or maintain adequate documentation for its activities, properly classify three activities, or ensure that one activity met national objective requirements. Further, the Agency paid for unallowable costs. This condition occurred because the Agency disregarded HUD CDBG requirements and its own policies. In one case, the Agency ignored its current procurement policy and used an outdated policy to justify a noncompetitive procurement action. As a result, HUD had no assurance that \$385,414, which the agency spent on four activities, was a fair and reasonable cost. Also, the agency did not properly classify three activities totaling \$119,150.

### **Recommendations**

We recommend that the Director of HUD's San Francisco Office of Community Planning and Development require the Agency to

- 1A. Support that the 59 contracts awarded for the emergency repair program were fair and reasonable or repay its program \$272,569 from non-Federal funds.
- 1B. Obtain technical assistance from HUD to revise its Emergency Repair Program to meet CDBG requirements.

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<sup>8</sup> 24 CFR 570.208(a)(1)(i)

<sup>9</sup> This amount is separate from the \$48,895 in Colonial Heights Library change orders questioned above.

<sup>10</sup> 24 CFR 200.403(a)

- 1C. Support that the contract awarded for the food incubator study was fair and reasonable and met a final cost objective or repay its program \$50,000 from non-Federal funds.
- 1D. Support that change orders executed outside the scope of the Colonial Heights Library contract were fair and reasonable or repay its program \$48,895 from non-Federal funds.
- 1E. Support that the contract awarded for the Boys and Girls Club feasibility study was fair and reasonable and met a final cost objective or repay its program \$13,950 from non-Federal funds.
- 1F. Provide procurement training to its staff members who work on CDBG program activities and ensure that staff members comply with HUD requirements and use its current procurement policy.
- 1G. Support that the entrepreneur center feasibility study met a final cost objective or repay its program \$55,200 from non-Federal funds.
- 1H. Reimburse its program \$283 from non-Federal funds for unallowable bottled water costs.
- 1I. Review all invoices provided from its minor repair subrecipient between January 1, 2015, and December 31, 2017, and repay the program from non-Federal funds for all bottled water service payments not identified in this audit report.
- 1J. Provide training to its employees regarding allowable costs to ensure that all costs submitted by contractors and subrecipients are eligible for reimbursement.

# Scope and Methodology

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We performed our audit fieldwork at the Agency's offices located at 801 12th Street, Sacramento, CA, from November 2017 through March 2018. Our audit period covered January 1, 2015, to December 31, 2017, and was expanded when necessary.

To accomplish our objective, we

- Reviewed applicable CDBG program requirements and applicable Federal regulations.
- Reviewed relevant background information, including organizational charts and grant agreements.
- Reviewed relevant Agency policies and procedures.
- Reviewed audited financial statements, consolidated and annual action plans, and consolidated annual performance evaluation reports.
- Interviewed appropriate Agency personnel and HUD staff.
- Reviewed HUD monitoring reports.
- Reviewed reports from IDIS to obtain CDBG disbursement information for the period tested.
- Reviewed drawdowns (vouchers) and supporting documentation for sampled program expenditures.

## Sampling Information

The audit universe consisted of 52 vouchers amounting to almost \$16 million in drawdowns during fiscal years 2015, 2016, and 2017. We selected a nonstatistical audit sample of three vouchers, choosing one voucher from each year. The total amount of the three vouchers selected was almost \$3.5 million, which represented 21.62 percent of the dollar amount of the total universe. Based on our review of the vouchers, we requested additional documentation for six activities to support the eligibility, national objective, and procurement of each activity. We selected these six activities based on dollar amount and concerns HUD had regarding the program. We also selected 100 percent of the construction contracts to review. The dollar amount of the three construction contracts totaled more than \$1.4 million. Our audit results were limited to the vouchers in our sample and cannot be projected to the universe.

We determined that data contained in source documentation provided by the Agency agreed with data contained in IDIS. We, therefore, assessed the computer data to be sufficiently reliable for our use during the audit.

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.

# Internal Controls

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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 program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure compliance with applicable HUD rules and requirements.

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 Agency lacked adequate controls to ensure that its employees fully complied with HUD regulations or its own procurement policies (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>
1A		\$ 272,569
1C		50,000
1D		48,895
1E		13,950
1G		55,200
1H	\$ 283	
<b>Total</b>	<b>283</b>	<b>440,614</b>

- 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. In this case, the Agency reimbursed its subrecipient for bottled water, which was not reasonable or necessary for the performance of the award.
- 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. The unsupported amount in this case includes \$385,414 in awards without documentation to support competition and reasonableness of final cost and \$55,200 spent on a feasibility study with no documentation showing a final cost objective.

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1

Comment 2

Comment 3

Comment 4



June 26, 2018

A Joint Powers Agency

MEMBERS

- City of Sacramento
- County of Sacramento
- Housing Authority of the City of Sacramento
- Housing Authority of the County of Sacramento

Ms. Tanya E. Schulze  
Regional Inspector General for Audit  
Office of Audit (Region 9)  
300 N. Los Angeles Street, Suite 4070  
Los Angeles, California 90012

Subject: Comments on June 5, 2018 Draft Audit

Dear Ms. Schulze:

The Sacramento Housing and Redevelopment Agency (Agency) appreciates the opportunity to provide comments on the draft audit report dated June 5, 2018, from the review of the City of Sacramento's Community Development Block Grant (CDBG) program by the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) auditors.

This review was a standard audit conducted over a five month period of the City of Sacramento's (CDBG) covering three years' worth of activities. During the review period of 2015 through 2017, the Agency expended approximately \$16 million in CDBG funds for a wide variety of community-serving activities. The auditors concluded that \$283 was spent on ineligible uses (filtered water service). Furthermore, approximately \$385,000 requires additional documentation for cost reasonableness; however, those funds were for eligible uses under HUD and other federal statutes and regulations.

The Agency does not agree with either the tenor or accuracy of the bold headings throughout the June 5th draft Audit Report. The auditors have agreed to modify these headings to reflect their findings. The "highlights" section of the draft report contends that the Agency lacked awareness of HUD regulations; however nothing in the findings, as reviewed below, demonstrate a lack of such awareness. The draft report generalizes that the Agency did not use CDBG funds in accordance with HUD requirements or the Agency's own policies. The findings presented, however, do not support that statement.

The Agency has implemented the CDBG on behalf of the City and County of Sacramento since 1982. The Agency is responsible for the HUD planning and reporting documents, including the Consolidated Plan, Annual Action Plan, Annual Performance Report, and administers all of the associated HUD grant



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programs for the City and County, i.e., HOME, Emergency Solutions Grant, Housing Opportunities for Persons with AIDS (HOPWA), as well as Neighborhood Stabilization Programs 1 & 3, and the Choice Neighborhoods Implementation Grant. The administration of all of these programs has resulted in an effective, coordinated, and important partnership with HUD.

The strength of the Agency's relationship with HUD and the reputation of the Agency as a high capacity grant administrator have been acknowledged by HUD. Examples include:

Comment 5

- Selected by HUD as one of only five grantees in the Country to pilot the online eCon Planning Suite to develop a regional (City/County) Consolidated Plan. All Consolidated Plans and subsequent Action Plans and Annual Reports must use the online eCon Planning Suite.
- Consistently receives Tier 1 status for HOPWA annual report, meaning there were no calculation errors, missing items, or inconsistencies. The report passes all data checks.
- Selected as the only Housing Authority west of the Mississippi River to receive a one-time competitive grant of \$10,000,000 from the 2009 American Recovery and Reinvestment Act for rehabilitation of a Public Housing High Rise for elderly tenants.
- Recognized by the Urban Land Institute in 2010 for the implementation of the NSP, specifically for the Agency's early successes in implementation, regional collaboration, and leadership.
- Recognized by HUD in its September 2016 publication, "Promising Practices in Consolidated Planning," as a leading example for administering a variety of federal programs and funds under one city and county joint organization allowing for more economic and efficient coordination of federal resources.
- Recognized by HUD, the American Planning Association, National Trust for Historic Preservation, and other organizations for our historic preservation efforts.
- Chosen by HUD to lead one of the largest regional Analyses of Impediments to Fair Housing Choice efforts (currently underway).
- Received the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada 24 years in a row.
- Received the Meritorious Budget Award for Excellence in Financial Reporting from the California Society of Municipal Finance Officers.

#### **Emergency Repair Program (ERP) Procurement**

The draft report contends that the ERP did not comply with federal procurement regulations. We disagree and assert that our procurement methodology ensured both fair and open competition and cost reasonableness.

Comment 6

Due to the scope of allowable repairs under the ERP, the valuation of the services provided by contractors is limited. For the program to attract contractors for small repair jobs, the Agency publicly solicits construction contractors to submit proposals to be placed on a qualified list to perform the work on a "task order" basis. The reasons for this methodology are as follows:

2

Comment 7

1. Clients' needs are urgent, so bidding each project to multiple contractors would add considerable staff and project time to the process of responding to their needs.

2. Contractors' interest in this program is already limited, and bidding on each of these very small projects would further reduce their interest, as their profit margins are extremely small.

Comment 8

3. The "Bid Price Schedule" included as part of each contractor's contract prescribes the prices at which many of the most frequently used services are to be billed. This Bid Price Schedule was also included in the solicitation, and was designed to limit variability in the ultimate cost of each project. The Bid Price Schedule was developed by the Agency many years ago and is continuously updated based on actual bids and costs as market conditions and materials prices change.

Comment 9

The ERP was publicly advertised to all interested, eligible contractors and the Agency only received seven proposals. All seven contractors were placed on the qualified list. Over the many years the Agency has been performing this service, there has been a very limited interest shown by contractors considering the level of effort required for the limited compensation they receive. From our experience, larger contractors have no interest in the program and many of the smaller contractors are also unwilling to undertake work of this nature.

Comment 10

As a follow up to the draft audit recommendations, the Agency construction staff reviewed the 59 questioned costs using the industry standard RS Means guide, National Cost Estimating Guide, Internet materials research, and calls to industry professionals and found that all but 15 of them were priced by our contractors at or below market levels. For those 15, the cost above market levels averaged \$358 per job. This exercise reinforces the cost reasonableness of the methodology used by the Agency in association with the ERP procurement. It should also be noted that the actual number of projects questioned is 57, since two of the projects entered into the list provided by our Finance Department were duplicates of projects already shown.

Comment 11

Comment 6

Because the Agency put the program out to bid and accepted all interested contractors, we believe we provided fair and open competition. Because the bid pricing for many repetitively used items is set by the Agency using the methodology described above and is borne out by our cost analysis also described above, we believe the costs of the repairs to be reasonable.

Comment 9

The ERP assisted 172 low income households from 2015 through 2017 and is an extremely impactful and important program for our community, particularly for our seniors who are the primary beneficiaries. The inability of the Agency to operate a program that attracts contractors willing to support this valuable resource would have a significant impact on low income families who need critical repairs to remain safely in their own homes

**Food Incubator Feasibility Study**

The Agency agreed to fund a study to evaluate the feasibility of a food incubator in the Sacramento region that included the evaluation of a specific facility located in the low and

Comment 12

moderate income neighborhood of Mansion Flats. The project was brought forward by a local partnership with experience and background both in operating food related businesses and in the development of complex reuse projects in Sacramento. The partnership's experience included a developer who had completed the nearby award-winning Globe Mills development which transformed an old flour mill into affordable housing, and a local restaurateur and farm-to-fork innovation leader. These partners were determined to be uniquely positioned to develop a food incubator and to be the only such group within the Sacramento region that could undertake the feasibility study.

One of the partners owns the property, previously used as a trucking terminal that had likely been vacant for over 10 years. The building is a large, abandoned warehouse that was considered to be potentially suitable for a food incubator facility. The Agency requested that the partners form a separate entity (Merchant Foods) that did not own the building with whom the Agency could enter into contract for study implementation. The building is available and uniquely situated to serve this low-income community. Revitalizing the building would provide a public benefit by transforming a blighted structure to serve as a catalyst for neighborhood improvement while also providing residents with healthy food choices and boosting economic opportunity.

Following adopted and applicable procedures pertaining to noncompetitive procurement for sole source, staff negotiated a scope and budget for the feasibility study. The scope of work included activities with a direct nexus to a public facility improvement project including capital needs, infrastructure and construction related assessments, and design.

To assist with the study, Merchant Foods hired Union Kitchen, a Washington, D.C.-based organization having specific experience in the development of food incubators to serve as consultant on the project. Union Kitchen, a food and beverage business accelerator based in Washington, D.C., has developed a model that is being replicated nationwide.

The study resulted in a determination that the Food Incubator is a feasible project and the project is moving forward. Food Merchants, LLC, the partnership implementing the Food Incubator, is in the process of fundraising and establishing the Food Incubator as a non-profit entity. Merchant Foods plans to begin tenant improvements in the 4th quarter of 2018 and open in the 3rd quarter of 2019. Although CDBG funding has not been requested for the development phase, the CDBG-funded feasibility study was pivotal in the creation of this innovative, community-serving resource that will potentially leverage over \$5 million. When complete, this project will meet a national objective and final cost objective.

Comment 13

The draft report states that the ownership interest "may have influenced the results of the study." However, it was always the intent of the study to evaluate the feasibility of a food services incubator at that particular location because of the unique opportunity to address both blight and economic development in a low income neighborhood.

**Colonial Heights Library**

The draft report asserts that the CDBG-funded improvements of the Colonial Heights Library resulted in violations including procurement and failure to meet a national objective. Neither of these conclusions is correct. The additional Americans with Disabilities Act (ADA) construction work was an obligation imposed by the City of Sacramento Building Department permitting requirements. The tool shed lending program did meet a national objective, along with the entirety of the improvements. However, the shed was eventually forced to close because of security problems.

ADA Improvements

The Audit's assessment that the Agency should have halted work to re-bid the construction work for the Colonial Heights project because the City's Building Department added a requirement relating to access due to ADA compliance is unreasonable given the circumstances. Furthermore, the potential precedent set by this finding could render construction projects infeasible nationwide.

The work to upgrade some of the library's parking spaces to meet disabled requirements was not an elective modification to the project. Instead, this work was deemed by the Building Department's plan checker to be part of the scope of the project and the permit was ultimately contingent upon this work being done. The building code indicates that, for work performed on existing buildings, a percentage of the project's budget must be spent on accessibility items. Though the architect included accessibility upgrades to the area of work, i.e., inside the building, the Building Department determined, after the project was bid, that the "path of travel" from the parking lot to the actual area of work was also required to meet current code. This meant that the parking spaces had to be upgraded. The Agency, therefore, had no choice but to include this work as part of the project.

As a follow up to the draft audit recommendations, the Agency construction staff reviewed the questioned costs for the parking lot work using the Site Work & Landscape Costs with RS Means data and found that the contractor's pricing was well below market levels.

Tool Shed

The audit states that the tool shed project fails to meet a National Objective. The tool shed, comprising 12% of the project's total costs, did in fact meet the National Objective along with the remaining components of the Colonial Heights Library improvement project. The shed was to become a community lending resource for home and community gardeners, benefiting the residents of a Low/Mod area. Unfortunately and unforeseen, the shed attracted crime. The Agency worked with the Library on various solutions to secure the shed and maintain its purpose. The Library determined it was necessary to board up the facility and had not informed the Agency prior to the OIG site visit. The closing of the tool shed was disappointing. However, when contacted by the Agency, the Library reimbursed the funds expended on the shed.

Comment 14

Comment 15

Comment 16

Comment 17

**Boys and Girls Club Feasibility Study**

According to the audit, the Agency did not follow its own policies regarding procurement relating to the procurement of a feasibility study for the Boys and Girls Club (Club). Again, this is a mischaracterization. As a subrecipient to the Agency, the Club was responsible for following the procurement regulations of 2 CFR 200. The Agency's role is to monitor for compliance. Agency staff did work closely with the subrecipient before and during this CDBG-funded activity.

Comment 18

The Club went out to bid for the original feasibility study, interviewed three firms and selected the Lester Group. Ultimately, the Lester Group advised the Club, after expenses had been occurred, that they did not believe there was enough momentum and capacity for the project. Lester Group recommended not moving forward on the next phase of the feasibility study. The Club reimbursed the Agency for that study. The Club then requested to use some of the funding for a Community Study to assist the Club in getting a better written understanding of the neighborhood support for the opening of a club facility in Del Paso Heights. The Club reviewed other consultants, including non-profits to perform the Community Study and, provided the Agency with a written proposal from Ontrack for review.

Comment 19

Working with the Club, the Agency determined the cost of the study was reasonable. Ontrack's fees were also in line with previous study the Club had done with Sierra Health Foundation. Subrecipients receive training from the Agency on procurement requirements and procedures which they are required to follow. The Agency is responsible for formal monitoring and site visit to review files. It was determined that sufficient written records of the Club's procurement process were not maintained, thereby violating the Agency's policies. We maintain that this was a monitoring issue and not a procurement issue. Federal regulations (2 CFR 200) do not require written quotes for a project of this size.

Comment 20

**Entrepreneur Center Feasibility Study**

The Agency funded a feasibility study for an entrepreneurship center in the low- and moderate-income neighborhood of Del Paso Heights. The study evaluated specific locations within the neighborhood that would best serve the needs of the community.

The City of Sacramento Economic Development Department is leading the efforts to implement the Entrepreneurship Center in partnership with the Sacramento Public Library and community groups. When complete, this project will meet a national objective and final cost objective.

Comment 21

**Water Service as an Ineligible Cost**

The draft audit contends that filtered water delivery service provided in support of a volunteer-based repair program is an ineligible cost. We disagree and are concerned about the precedent-setting potential of this particular finding. Regulations under 2 CFR 200 consider health and welfare costs that lead to "improvement of working conditions... employee

health..." to be eligible (200.437 (a)). In addition, fringe benefits are an allowable cost (200.431(a)).

While the questioned cost amount of \$283 is not significant, our concern is that this OIG audit finding may set a precedent for the inability of federal grantees to provide safe drinking water to staff, volunteers, clients, etc., and we believe this would be unfortunate. During a meeting on March 15th, OIG Auditors indicated that they considered the cost of a filtered water service to be unreasonable for the Rebuilding Together home repair program, which leverages \$43,000 worth of volunteer staff time for our community.

Responses to specific recommendations are provided in **Appendix A** to this letter.

The Agency team takes pride in its efforts to develop and support quality services and projects in our communities. We are committed to maintaining the highest level of management and compliance monitoring of federally funded programs. Our commitment is exemplified in that we are constantly exploring ways to improve operations and administration of programs. We also view continuous staff training as an essential part of implementing proper processes and procedures. We look forward to continuing to work with our partners at HUD to address any remaining findings at the conclusion of the audit.

Sincerely,



LaShelle Dozier  
Executive Director

cc:

Kimberly Y. Nash, Director, Office of Community Planning and Development  
Lawrence Wuerstle, Senior Representative, Office of Community Planning and Development  
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Aaron Taylor, Management Analyst  
Kimberly R. Randall, Acting Assistant Inspector General for Audit  
James Brady, Assistant Regional Inspector General for Audit

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Sacramento Housing & Redevelopment Agency

Appendix A

1A. Support that the 59 contracts awarded for the emergency repair program were fair and reasonable or repay its program \$272,569.

Comment 10

Response: The Agency Construction staff has analyzed these costs and found that all but 15 were priced by our contractors at or below market levels, validating staff's experience and expertise. The Agency will, as always, work with HUD to ensure the Agency's administration and delivery of Agency programs meet both federal standards and the needs of the community.

1B. Support that the contract awarded for the Food Incubator Study was fair and reasonable and met a final cost objective or repay its program \$50,000 from non-Federal funds.

Comment 12

Response: The Agency will work with HUD to determine what information should be provided to validate the cost of the study. We are confident that we will be able to obtain sufficient information to show cost reasonableness. The Agency will reclassify this project to Planning and Administration to address the issue of final cost objective.

1C. Support that change orders executed outside the scope of the Colonial Heights Library contract were fair and reasonable or repay its program \$48,895 from non-Federal funds.

Comment 14

Response: The Agency disagrees that this work was "executed outside the scope" as it was a requirement of the permit in order to undertake the other improvements. Agency construction staff has analyzed the questioned costs for the work and found that the contractor's pricing was well below market levels, and therefore determined the price to be fair and reasonable. The Agency will provide documentation to HUD when/if requested.

1D. Support that the contract awarded for the Boys and Girls Club feasibility study was fair and reasonable and met a final cost objective or repay its program \$13,950 from non-Federal funds.

Comment 17

Response: The Agency contends that this finding should be classified as a monitoring finding and not a procurement finding and further asserts that the procurement procedures followed do not violate federal regulations. However, we will work with HUD to determine what type of information will be required to address the concerns raised by the draft audit. The Agency will reclassify this activity to Planning and Administration.

1E. Provide procurement training to its staff members who work on CDBG program activities and ensure that staff members comply with HUD requirements and use its current procurement policy.

Comment 22

Response: The Agency will be hosting a Management Concepts-delivered training on 2 CFR 200 in September. That course will cover procurement and other uniform federal grant administrative requirements.

Comment 22

1F. Support that the entrepreneur center feasibility study met a final cost objective or repay its program \$55,200 from non-Federal funds.

Response: The Agency will reclassify this activity to Planning and Administration in order to resolve this concern.

Comment 22

1G. Reimburse its program \$283 from non-Federal funds for unallowable bottled water costs.

Response: If HUD supports this finding, the Agency will make the reimbursement.

Comment 22

1H. Review all invoices provided from the Agency's minor repair subrecipient between January 1, 2015, and December 31, 2017, and repay the program from non-Federal funds for all bottled water service payments not identified in this audit report.

Response: The Agency will work with HUD to address this recommendation and comply with HUD's determination.

Comment 22

1I. Provide training to its employees regarding allowable costs to ensure that all costs submitted by contractors and sub recipients are eligible for reimbursement.

Response: The Agency will provide this training (see response for 1E which also includes Cost Principles (Section E of 2 CFR 200) modules. It must be, however, re-emphasized that only \$283 has been identified as a potentially ineligible cost.

## OIG Evaluation of Auditee Comments

- Comment 1** We agree that the Agency must provide supporting documentation for the unsupported costs identified in Appendix A. However, the unsupported costs total \$440,614, not \$385,000.
- Comment 2** We updated some of the bold headings in the report as discussed during the exit conference.
- Comment 3** We removed the statements that the Agency was unaware of HUD regulations and replaced it with the statement that the Agency disregarded HUD regulations and its own procurement policy.
- Comment 4** We disagree that the findings presented are not supported. The City did not always use CDBG funds in accordance with requirements. The findings in the report are factual and supported by documentation and information obtained during the audit.
- Comment 5** We acknowledge the Agency's participation in various HUD programs. However, this audit was limited to the Agency's CDBG program.
- Comment 6** We agree that the agency went through a procurement process that resulted in a qualified list of contractors. However, the existence of a qualified contractors list does not eliminate the need to seek competition and ensure cost reasonableness. Regulations at 24 CFR 200.319(d) states that the non-Federal entity must ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. The Agency developed the qualified list, ensured that it was current, but did not seek competition from the list.
- Comment 7** We disagree that the clients' needs rise to a level of urgency that allows the agency to bypass obtaining multiple quotes. In one case reviewed, the client reported problems with her heating and air conditioning on June 1, 2016. The Agency did not send a fax to the contractor to evaluate the needs of the client until July 12, 2016, more than 30 days after the client reported the problem. We agree the needs of the clients are important. However, as shown by the Agency's response in this case, it was not an emergency that would justify only receiving one quote.
- Comment 8** The contracts do contain bid price schedules developed by the Agency. However, the bid price schedule does not include all types of work performed under the Emergency Repair Program. For example, in two of the three client files reviewed, the Agency approved the replacement of air conditioning and heating units at prices that were not included in the bid price schedule. Instead, the Agency obtained a single quote greater than \$3,000 without seeking additional quotes in violation of both HUD regulations and its own procurement policy.
- Comment 9** We acknowledge that the Agency faces challenges in administering the Emergency Repair Program as currently designed. We added an audit report recommendation

to have the Agency work with HUD to ensure the Emergency Repair Program meets CDBG requirements.

**Comment 10** We are encouraged that the Agency has reviewed the costs for the 59 Emergency Repair Program contracts and determined that the costs were reasonable. The Agency should provide that support to HUD during the audit resolution process.

**Comment 11** We were unable to determine which two projects were duplicates. As a result, the Agency should provide evidence of duplication to HUD during the audit resolution process.

**Comment 12** We disagree that the qualifications of the partners awarded the food incubator study were sufficient to justify a non-competitive procurement. Regulations at 24 CFR 200.320(f) states that procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply.

1. The item is available only from a single source;
2. The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
3. The Federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-Federal entity; or
4. After solicitation of a number of sources, competition is determined inadequate.

The agency did not ensure the procurement met any of the above requirements for awarding a noncompetitive contract. The food incubator study did not result from an emergency, the Agency did not provide evidence it received prior approval from HUD and the Agency never issued a solicitation for the services. The contractor's unique qualifications described by the Agency might show that the contractor was qualified to perform the study. However, it does not support that they were the only contractor that could do the study. As a result, the Agency inappropriately restricted competition.

**Comment 13** The draft report does state the ownership interest may have influenced the results of the study. The study was to determine whether the food incubator was feasible at a specific location. We assert that because the contractor who performed the study also owned the proposed site, he may have benefitted financially based on the results of the feasibility study. As a result, this created a conflict of interest that could have affected the conclusion of the study.

**Comment 14** We disagree that the ADA parking spaces were part of the scope of the project. Regulations at 2 CFR 200.319(c) states that the Agency must ensure that all solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. It further states that the solicitation must identify all requirements, which the offerors must fulfill

and all other factors to be used in evaluating bids and proposals. Because the agency did not obtain the required permits ahead of the procurement, it was unable to develop a solicitation that contained a clear and accurate description of the technical requirements and did not identify all requirements, which the offerors must fulfill. In addition, the contract documentation did not contain an independent cost estimate for the additional concrete work, supporting that the amount spent on the additional work was fair and reasonable.

**Comment 15** We are encouraged that the Agency reviewed the cost of the ADA work. The agency should submit all supporting documentation showing cost reasonableness to HUD during the audit resolution process.

**Comment 16** We adjusted the report to state that the tool shed initially met a national objective. However, the library boarded up the shed shortly after it was built and the shed did not provide a service to the low to moderate income community as intended.

**Comment 17** We disagree that this is a mischaracterization. Regulations at 24 CFR 570.501 states that the Agency is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of a designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. In addition, in its response the Agency stated that it worked closely with the subrecipient before and during this CDBG-funded activity. Despite the close contact with the subrecipient, the agency was unable to produce supporting documentation for the procurement of the Boys and Girls Club feasibility study.

**Comment 18** This explanation of the procurement provided by the Agency was not provided to the audit team during the audit process. The Agency should provide all documentation to support its explanation to HUD during the audit resolution process.

**Comment 19** We are encouraged that the Agency reviewed the reasonableness of the cost of the study. The Agency should provide documentation supporting the reasonableness of the study to HUD during the audit resolution process.

**Comment 20** We agree that written quotes are not required. However, 2 CFR 200.318(i) requires the non-Federal entity to maintain records sufficient to detail the basis for the contract price. The Agency was unable to provide documentation to support how it developed the contract price and that the contract price was fair and reasonable.

**Comment 21** We disagree that the lack of bottled water created a health and welfare concern for the employees of the repair program. The subrecipient's office contained a kitchen area with potable water. The audit team provided an opportunity to the Agency to support that the potable water at the subrecipient's site posed a health concern to the subrecipient's employees. The Agency did not provide documentation to support that the potable water was a health hazard.

**Comment 22** During the audit resolution process, the Agency should provide supporting documentation to HUD for all actions taken to clear the report recommendations.

## Appendix C

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### Criteria

#### **2 CFR 200.318(i)**

The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

#### **2 CFR 200.319(a)**

All procurement transactions must be conducted in a manner providing full and open competition.

#### **2 CFR 200.320(b)**

Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

#### **2 CFR 200.320(f)**

Procurement by noncompetitive proposals. Procurement by noncompetitive proposals through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:

- (1) The item is available only from a single source;
- (2) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
- (3) The Federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-Federal entity; or
- (4) After solicitation of a number of sources, competition is determined inadequate.

#### **2 CFR 200.403(a)**

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award

#### **24 CFR 570.200(g)**

No more than 20 percent of any origin year grant shall be expended for planning and program administrative costs.

**24 CFR 570.208(a)(i)**

Area benefit activities include activities, the benefits of which are available to all the residents in a particular area, where at least 51 percent of the residents are low and moderate income persons.

**HUD Notice CPD [Office of Community Planning and Development] 13-07(III)(A)(6)**

A grantee must be aware of the risk associated with initiating a project that does not materialize or reach fruition and, therefore, does not meet a CDBG national objective or a final cost objective. In such cases, the incomplete activity will most likely be determined ineligible and the staff costs disallowed.

**HUD Notice CPD 13-07(III)(B)(1)**

Activity delivery costs (ADCs) are those costs not subject to the 20 percent limitation for program administrative costs. Accordingly, they are treated as part of the total cost for delivering a final cost objective under the CDBG program. This is the only limiting requirement – that the ADCs are incurred in order to implement and carry out specific CDBG-assisted activities.

At times, the initial costs for an eligible CDBG activity may be treated as administrative costs; however, in the activity's final accounting, it may be more appropriate to treat these costs as ADCs.

Where an activity is not completed, or the activity does not meet a CDBG national objective, the up-front costs must be allocated as PACs [program administrative costs] because they cannot be associated with achieving a final cost objective.

**Sacramento Housing and Redevelopment Agency, Procurement Policy 2016**

**Small Purchase Procedures**

For any amounts above the Micro Purchase threshold, but not exceeding \$150,000, SHRA may use small purchase procedures. Under small purchase procedures, SHRA shall obtain a reasonable number of quotes (preferably three or more). For purchases of less than \$3,000 only one quote is required.