



Issue Date December 26, 2007

Audit Report Number 2008-AT-1003

TO: Gary A. Causey, Director, Jacksonville Community Planning and Development Hub, 4HD

Marcell Stamps
for

FROM: James D. McKay, Regional Inspector General for Audit, Region IV, 4AGA

SUBJECT: The City of Jacksonville, FL Lacked Proper Support for Some Subrecipient Purchases and Expenditures

HIGHLIGHTS

What We Audited and Why

We reviewed the City of Jacksonville/County of Duval, Florida's (City) Community Development Block Grant program (CDBG). We conducted the review as part of the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General's annual audit plan. Our objectives were to determine whether the City complied with CDBG regulations and requirements related to (a) use of competition when purchasing goods and services, (b) eligibility of public facilities/improvements costs, (c) financial management systems, (d) charging direct and indirect costs, (e) eligibility of housing rehabilitation participants, and (f) contracting with and monitoring of subrecipients.

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What We Found

The review did not identify reportable conditions for most of the cited objectives. However, the City needs to improve controls to ensure proper justification for sole source procurements and that subrecipients only use program funds for specific City-approved activities. We identified subrecipients that did not properly document or justify sole source procurements totaling \$156,000 for four purchases. We also identified one instance in which the City reimbursed a subrecipient \$34,552 for costs that were not for the activity component the City approved. These conditions occurred because the City did not adequately review the subrecipients' use of sole source procurements and because it did not adequately review a subrecipient's request for payment. As a result, the City could not adequately support the reasonableness of \$156,000 in CDBG disbursements and the \$34,552 paid for costs not associated with the City-approved activity.

What We Recommend

We recommend that the Director of HUD's Office of Community Planning and Development require the City to establish and implement controls to ensure compliance with requirements for sole source purchases and that subrecipients are only reimbursed for costs incurred for activities approved in their funding request. The City should be required to reimburse the program for any portion of the \$190,552 that it cannot support as being reasonable and having been incurred for the City-approved activity. Any reimbursements should be made from nonfederal funds.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft audit report to the City on November 02, 2007. We held an exit conference on November 20, 2007. The City provided written comments on December 3, 2007. It generally disagreed with our finding.

The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The City of Jacksonville/County of Duval (City) is an entitlement recipient of Community Development Block Grant (CDBG) funds approved by the U.S. Department of Housing and Urban Development (HUD). From October 2004 through September 2007, the City received more than \$21.6 million in CDBG funding. The City is a political entity created by Chapter 67-1320 of the Laws of Florida. The consolidated city government is comprised of nineteen elected City Council members and the Mayor. The City administers the program through its Community Development Division.

The City uses its CDBG funds for a wide range of housing and community development activities. The activities are directed toward neighborhood revitalization, economic development, and improved community facilities and services. The City must give “maximum feasible priority” to activities that will benefit low- and moderate-income persons or aid in the prevention or elimination of slums or blight. The City may also use CDBG funds to meet other community development needs that present a serious and immediate threat to the health or welfare of the communities.

Our objectives were to determine whether the City complied with CDBG regulations and requirements related to (a) use of competition when purchasing goods and services, (b) eligibility of public facilities/improvements costs, (c) financial management systems, (d) charging direct and indirect costs, (e) eligibility of housing rehabilitation participants, and (f) contracting with and monitoring of subrecipients.

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RESULTS OF AUDIT

Finding 1: The City Lacked Proper Support for Some Subrecipient Sole Source Procurements and Program Expenditures

The City needs to improve controls to ensure that subrecipients provide proper justification for sole source procurements and only use program funds for approved activities. The review identified \$156,000 for four procurements in which nonprofit subrecipients did not document or follow competitive procurement requirements and one \$34,552 disbursement that was not supported as having been paid for the approved activity. These conditions occurred because the City did not adequately review the subrecipient's use of sole source procurements and because it did not adequately review a subrecipient's request for payment. As a result, the City could not adequately support the reasonableness of \$156,000 in CDBG disbursements for sole source purchases and the \$34,552 that was not supported as having been paid for the approved activity.

Procurement Standards Not Followed

Program regulations provide that nonprofit subrecipients shall comply with HUD procurement standards contained in 24 CFR [*Code of Federal Regulations*] 84.40-48. The standards include conducting procurements using full and open competition. Office of Management and Budget Circulars A-87 (C) and A-122 (A)(2)(g) require costs charged to a federal award to be adequately documented. We reviewed more than \$2.4 million for 12 contracts awarded between October 2004 and March 2007 by the City or its subrecipients and found procurement problems with four contracts and questionable support for payments made for one contract. Each instance involved contracts awarded by nonprofit subrecipients. Specifically, the review identified

- \$86,000 expended by one subrecipient on a sole source purchase of three specially equipped vehicles. The subrecipient purchased the vehicles to deliver food to senior citizens. A City official stated that the City had funded the subrecipient for many years and the subrecipient always used the same North Carolina vendor, claiming that it was the only provider of the specialized vehicles. The City did not verify or require proof to support that claim. We identified at least two other vendors, located in Washington State and New Jersey, who provided the same type of vehicles. Without competition, the City did not have adequate assurance that the amounts paid for the vehicles were reasonable.
- \$70,000 expended by a subrecipient for sole source purchases to upgrade the emergency call systems in two HUD-insured multifamily projects. The procurement did not meet the criteria for sole source purchases. The

subrecipient, a nonprofit organization, owned the two projects. The City awarded the \$70,000 to assist the subrecipient in paying a portion of the \$122,110 estimated for the project. The City allowed the sole source purchase based on the subrecipient's grant application that claimed the services were only available from a single source. The City required no evidence to support that assertion. HUD Multifamily Office files showed that there were other vendors in the area that performed the same type of work purchased from the sole source. Without competition, the City had inadequate assurance that the amounts paid for the services were reasonable.

Funds Not Used For the Approved Activity

In addition, the City did not adequately support \$34,552 reimbursed to a subrecipient for costs not related to the parking lot it approved for funding. The City awarded the subrecipient \$50,000 to help pay for a parking lot that was a smaller part of a larger construction project. The subrecipient requested and the City approved the \$34,552 payment applied against the parking lot award although the expenses were for other project costs. The files contained no evidence that appropriate City officials reviewed and provided advance approval to use the parking lot authorization to pay the other costs.

Conclusion

The \$156,000 in questioned procurements and the \$34,552 in unsupported costs were not documented as reasonable and proper CDBG expenditures. These conditions occurred because the City did not adequately review subrecipients' use of sole source procurements and because it did not adequately review a subrecipient's request for payment for consistency with the funding authorization.

Recommendations

We recommend that the Director, Office of Community Planning and Development, require the City to

- 1A. Support the reasonableness of the \$156,000 paid for sole source procurements or reimburse the CDBG program the amounts determined to be excessive from nonfederal funds.
- 1B. Support that the \$34,552 was an eligible CDBG expenditure. Any portion of the amount that is not properly supported should be reimbursed to the CDBG program from nonfederal funds.

- 1C. Implement controls and procedures to properly review sole source procurements to ensure that they are justified and do not circumvent HUD's and the City's procurement requirements.
- 1D. Implement or enforce existing requirements to review and deny any payment requests that are not consistent with the fund authorizations.

SCOPE AND METHODOLOGY

We performed the review from April to October 2007 at locations in Jacksonville, Florida, for HUD, the City, and our office. The review generally covered the period October 1, 2004, through March 31, 2007. We adjusted the period when necessary. To accomplish our objectives, we

- Interviewed officials of the Jacksonville HUD Office of Community Planning and Development and the City.
- Reviewed and obtained an understanding of the City's internal controls and control environment including the policies and procedures for procurement, public facilities/improvement, and limited repair programs.
- Reviewed applicable statutes, regulations, HUD handbooks, Office of Management and Budget circulars and other program requirements.
- Reviewed HUD's files, including monitoring reviews, action plan, consolidated annual performance and evaluation report, and correspondence files.
- Reviewed the City's single audit report for fiscal year 2005.
- We selected and used various transactions to determine compliance with program requirements. When selecting transactions we considered factors such as dollar amount, activity type, and other conditions that were relevant to the audit objectives.
- Reviewed CDBG funds expended for public facilities/improvements, the limited repair program, the emergency repair program, the utility tap program, and public services. The City spent \$10.36 million on these programs, of which we reviewed \$1.05 million.
- Reviewed CDBG procurements of public facilities/improvements, the limited rehabilitation program, utility taps, and public services. The City awarded \$14.42 million in contracts for these programs, of which we examined contract awards that totaled more than \$2.43 million.
- Reviewed monitoring files for two of the forty-three public facilities/improvements grants awarded between October 1, 2003 and March 31, 2007.
- Reviewed two public facility/improvement and six housing rehabilitation projects for compliance of national objectives and eligibility requirements.
- Reviewed the City's cost allocation plan.

We performed the review in accordance with generally accepted government auditing standards.

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INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Controls over activity and participant eligibility and compliance with national objectives.
- Controls over financial management including the reasonableness, eligibility, and support for payments.
- Controls over monitoring of subrecipient performance.

We assessed the relevant controls identified above.

Significant Weaknesses

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

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

- The City's controls to ensure proper justification for sole source procurement and support for program expenditures were inadequate (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Unreasonable/ unnecessary 1/</u>	<u>Unsupported 2/</u>
1A	\$156,000	
1B		\$ 34,552
Total	<u>\$156,000</u>	<u>\$ 34,552</u>

1/Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that a prudent person would incur in conducting a competitive business.

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 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

HOUSING AND NEIGHBORHOODS DEPARTMENT COMMUNITY
DEVELOPMENT DIVISION



December 3, 2007

James D. McKay, Regional Inspector General for Audit
United States Department of Housing and Urban Development Region
4, Office of the Inspector General
Office of Audit, Box 42
Richard B. Russell Federal Building 75
Spring Street, SW, Room 330 Atlanta,
GA 30303-3388

Dear Mr. McKay:

This correspondence and accompanying attached documents comprise our official comments to the noted finding and recommended corrective actions to the recently completed audit of the City Of Jacksonville, Community Development Black Grant Program, Jacksonville, Florida.

Finding 1: The City's Controls to Ensure Proper Justification for Sole Source Procurement and Support for Program Expenditures Were Inadequate.

Response: We (the City of Jacksonville's Community Development Division) will in the future make the necessary corrective actions and implement controls and procedures to ensure that proper review of sole-source procurements are justified and are consistent with HUD's and the City's procurement requirements.

Comment 1

Additionally, we seek to enhance our existing implementation and enforcement efforts regarding sole-source procurement requirements to ensure that all applicable sub-recipient organizations provide proper documentation and are compliant.

Details specific to Finding 1 regarding supporting the reasonableness of the \$156,000 paid as a sole-source procurement, we offer the following:

Comment 1

- Reasonable review was performed by the City in support of the sole-source procurement of three specially equipped vehicles by a sub-recipient. Several years ago the sub-recipient identified a vendor [from contacts with other Meals on Wheels (MoW) providers] in North Carolina to provide the specially equipped vehicles to deliver hot food to senior citizens. The City's Department of Procurement's Administrative procedures states [Sec XII (2)] that a sole-source procurement shall apply when there is only one justifiable source (Attachments G&H). Please note in attachment E that the sub-recipient was unable to locate a retrofitted vehicle vendor to fit their needs after contacting other potential vendors. Therefore the decision to utilize the North Carolina vendor in this case was justified; however, in future procurement activities, the City will insist that the sub-recipient provide adequate documentation regarding the search of qualified vendors providing this unique and qualified service. In this circumstance, we submit that the \$86,000 expenditure in costs for procuring these vehicles were justified and qualified under HUD program requirements and should not be reimbursed.

Comment 1

- Regarding \$70,000 spent by the sub-recipient for the sole-source purchase to install an emergency call system in two HUD-insured multi-family projects, the City submits this purchase as justified. The \$70,000 portion the City awarded to support the over \$122,100 in estimated costs was an eligible expense. While several vendors were identified by the non-for-profit to sell and install the emergency call system, only one was found qualified to install and maintain the system without the loss of warranty (please see attachments A – D, F). The other identified vendors were not qualified to maintain or repair the system and if future servicing were required, these companies did not have the certifications to meet the warranty requirements as specified by the call system manufacturer (Please see attachment C). Therefore the selection of the vendor as a sole-source in this case was justified due to a potential loss of equipment warranty rendering the purchase purely a short-term solution for the end-user. In this instance, we submit that the \$70,000 expended in this sole-source purchase is qualified and should not be reimbursed by the City as ineligible.

Comment 2

- Regarding the \$34,552 expenditure as an eligible CDBG expense, we submit that this expenditure is indeed eligible and justified. The \$34,552 disbursement in question was made to the YMCA of Florida's First Coast in support to construct an undeveloped parcel of land to an active parking lot. The total award amount was \$50,000 for an eligible approved activity in an extremely low income area. The project is an eligible public facility and improvement project.

The questioned disbursement in the amount of \$34,552 was approved, by the appropriate city staff official, to be used for infrastructure work that

included the construction of a culvert for vehicles to have access with right of entry to the site and drainage piping for flooding, to the undeveloped parking lot site.

However, there was a prior year awarded contract with the above agency for major infrastructure work that included sewer and water line connections to the main utility system. CDBG funds (\$100,000) were used for this activity. The agency could not construct or develop the parking lot without the proper infrastructure improvement listed above.

The project file contained a letter documenting the City's Public Works Department issues with the lack of infrastructure on the parking lot site. The contractor that completed the prior year infrastructure work was given approval to complete the parking lot improvement. A change order was initiated for the parking lot infrastructure work. (See attachments I thru N).

It is the practice of the City of Jacksonville CDBG staff to grant approval to an agency for construction cost that is directly related to the project. This project would have not been completed without the infrastructure improvements to the undeveloped parking lot site.

This project is located in a census tract that is 70.3% LM. Any CDBG funds used to improve the quality of life of citizens in this area are more than eligible.

Note: Competitive bidding is not required for this amount of funding.

This expenditure was part of a larger parking lot construction project approved by the City. The funds in question were required to complete unforeseen preliminary infrastructure preparations related to the parking lot construction project and is not an unsupported separate contract expenditure - but an approved revision and supported eligible expenditure to the original contract.

In summary, the Office of the Inspector General's audit of the City of Jacksonville's Community Development Block Grant Program was performed with the cooperation and support of the City of Jacksonville's CDBG staff. Recommendations from audit staff include that the City (CDBG staff) establish and implement controls to ensure compliance with requirements for sole source purchases and that sub-recipients are only reimbursed for costs incurred for activities approved in their funding requests.

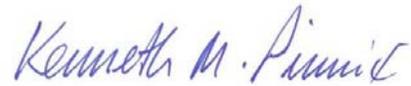
As a corrective action, recommendations from the OIG audit staff will be incorporated in future contract management and project monitoring training of all CDBG staff with close attention paid to HUD and City requirements for sole source procurements. In addition, implementation of a more stringent review of all eligible and reimbursable expenses will be enforced and applied to all current

Comment 2

and future CDBG eligible projects. Future in-house training of Block Grant Staff will include a thorough discussion and review of all applicable CDBG program eligibility requirements.

In closing, we thank you the opportunity to respond to the audit observations and look forward to your final comments and disposition of our audit results. If you have any questions, please contact me at (904) 255-8268 or via email at kpinnix@coj.net

Sincerely,

A handwritten signature in blue ink that reads "Kenneth M. Pinnix".

Kenneth M. Pinnix
Chief, Community Development Division
Housing & Neighborhoods Department
City of Jacksonville, Florida

Attachments: A-N

OIG Evaluation of Auditee Comments

- Comment 1 We acknowledge the City’s response that it will seek to enhance existing implementation and enforcement of sole source procurements to ensure compliance with requirements. However, the response did not fully justify the questioned sole source purchases. For instance, the City referenced attachments C and D to justify the \$70,000 sole source purchase discussed in the report. The referenced attachments were for a different subrecipient transaction with the same vendor that occurred after the transaction we questioned. These and the related attachments A, B, and F also did not support the City’s claim that only one vendor was qualified to install and maintain the system without voiding the warranty.
- Comment 2 The City’s response and attachments did not support its claim that the \$34,552 was for infrastructure work clearly related to the approved parking lot activity. We did not review the subrecipient’s procurement records for this purchase. However, contrary to the City’s claim, Title 24 CFR 84.40-43, requires all procurement activities by nonprofit recipients to be conducted in a manner to provide open and free competition.

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