

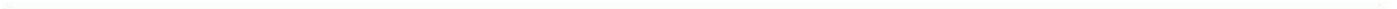


City of Fresno, CA

Community Development Block Grant Program

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

**Audit Report Number: 2017-LA-1006
August 9, 2017**





To: Laurence Wuerstle, Acting Director, Office of Community Planning and Development, San Francisco, 9AD

//SIGNED//

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

Subject: The City of Fresno, CA, Did Not Administer Its Community Development Block Grant in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of City of Fresno, CA'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: 2017-LA-1006

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The City of Fresno, CA, Did Not Administer Its Community Development Block Grant in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the City of Fresno's Community Development Block Grant (CDBG) program. We selected the City based on prior findings identified by the U.S. Department of Housing and Urban Development (HUD) and continuing issues with the program. The objective of the audit was to determine whether the City administered its CDBG funds in accordance with HUD requirements, focusing on code enforcement, antigraffiti, and after school program activities; monitoring; and program income.

What We Found

The City did not administer its program in accordance with HUD requirements. Specifically it (1) did not meet HUD's code enforcement requirements, (2) spent CDBG funds on general government expenses, (3) did not ensure that one program met a CDBG national objective, (4) did not properly monitor its subrecipient or City departments, (5) used its entitlement funds before its program income, and (6) did not report program income to HUD in a timely manner. This condition occurred because the City (1) lacked the capacity and experience to administer and implement the program, (2) did not have adequate procedures and controls in place, and (3) disregarded HUD requirements. As a result, it used CDBG funds for \$163,555 in ineligible costs and more than \$7.9 million in unsupported costs and put \$428,373 at risk over the next year of similar questionable use.

What We Recommend

We recommend that the Acting Director of HUD's San Francisco Office of Community Planning and Development require the City to (1) repay the program \$163,555 from non-Federal funds, (2) support the eligibility of more than \$7.9 million in CDBG costs or repay the program from non-Federal funds, (3) suspend funding to its code enforcement program until it can show that it has implemented controls, addressed its capacity issues, and understands and abides by HUD requirements, (4) implement policies and procedures to ensure that \$428,373 in CDBG funds is used in accordance with program requirements, and (5) provide training or obtain technical assistance on CDBG program requirements.

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Background and Objective

The City of Fresno, CA, receives annual Community Development Block Grant (CDBG) funds from the U.S. Department of Housing and Urban Development’s (HUD) entitlement program. The program allocates annual grants to larger cities and counties to develop viable communities by providing decent housing, a suitable living environment, and opportunities to expand economic opportunities, principally for low- and moderate-income persons. To be eligible for funding, program-funded projects must satisfy one of three HUD national program objectives required in 24 CFR (Code of Federal Regulations) 570.208:

- provide a benefit to low- and moderate-income persons,
- prevent or eliminate slums or blight, or
- meet other urgent community development needs due to disasters or other emergencies.

The City’s Development and Resource Management Department is responsible for the administration and oversight of the CDBG program. HUD awarded the City \$18.9 million in CDBG funds from fiscal years 2015 through 2017.

Fiscal year	Amount
July 1, 2014 – June 30, 2015	\$6,280,810
July 1, 2015 – June 30, 2016	6,279,643
July 1, 2016 – June 30, 2017	6,330,331
Total	18,890,784

HUD’s San Francisco Office of Community Planning and Development performed two monitoring visits to the City’s CDBG program in 2012 and 2015. HUD determined that the City was unable to show that it met the eligibility provisions of 24 CFR 570.202(c) with respect to its code enforcement activities. As a result, HUD questioned \$5.3 million in code enforcement activities for activities that took place in 2010 and 2011. In its second monitoring visit, HUD determined that the City still had not met the eligibility requirements for its code enforcement activities. Because of its ongoing issue with its code enforcement activities, HUD conducted recurring meetings with the City to inform it of code enforcement eligibility requirements. This finding remained unresolved.

Our objective was to determine whether the City administered its CDBG program in accordance with HUD requirements, focusing on code enforcement, antigraffiti, and after school program activities; monitoring; and program income.

Results of Audit

Finding 1: The City of Fresno Did Not Administer Its Community Development Block Grant in Accordance With Requirements

The City did not use CDBG funds in accordance with HUD requirements. Specifically, it did not (1) meet code enforcement requirements, (2) ensure that CDBG funds were spent on nongeneral government expenses for its antigraffiti program, (3) ensure that one program met a CDBG national objective, (4) properly monitor its subrecipient or City departments, (5) use its program income before its entitlement funds, and (6) report program income to HUD in a timely manner. This condition occurred because the City lacked the experience and capacity to administer and implement the program, did not have adequate procedures and controls in place, and disregarded HUD requirements. As a result, the City spent \$163,555 on ineligible costs, spent more than \$7.9 million on unsupported costs, and put \$428,373 at risk over the next year for similar questionable activity.

The City's Code Enforcement Activity Did Not Meet HUD Requirements

HUD regulations at 24 CFR 570.202(c) and 570.207(a)(2) state that CDBG funds may be used for code enforcement costs incurred for inspection for code violations and enforcement of codes in deteriorating or deteriorated areas when such enforcement, together with public or private improvements, rehabilitation, or services to be provided, may be expected to arrest the decline of the area and prohibit their use for general government expenses (appendix C). For its code enforcement activity, the City drew down more than \$6.6 million in CDBG entitlement and program income funds between July 17, 2013, and April 11, 2017. However, it did not distinguish between its CDBG code enforcement funding and its regular responsibilities as a unit of general local government.

- 1) The City did not designate areas as deteriorated for conducting code enforcement activities but, rather, conducted citywide code enforcement with HUD funding between 2012 and 2014 and conducted code enforcement activities in targeted areas between 2014 and 2017. It did not have a plan or strategy in place to show that its use of CDBG-funded code enforcement, combined with other activities, would arrest the decline in the area. It also did not have a way to measure the impact of the code enforcement activities.
 - **Fiscal years 2012 to 2013:** The City did not adjust its targeted areas and continued to use the same citywide boundaries that HUD questioned in its 2012 monitoring (see Background and Objective section) to conduct its code enforcement activities. During this period, code enforcement staff members allocated their staff hours between CDBG and general funds when conducting code enforcement activities.
 - **Fiscal years 2014 to 2017:** The City formed its Neighborhood Revitalization Team (NRT) around June 2014 to exclusively conduct code enforcement activities at five targeted neighborhoods. The City did not develop the necessary documentation to

show that these five targeted areas were deteriorated. In addition, on October 17, 2016, the former mayor of Fresno announced in a press release that the NRT would perform code enforcement work in 10 new targeted neighborhoods. HUD regulations at 24 CFR 570.208(b)(iii) state that documentation is to be maintained by the recipient on the boundaries of the area and the conditions and standards used that qualified the area at the time of its designation (appendix C). The current NRT manager showed that he created the deterioration documentation for the first of 10 neighborhoods on November 7, 2016, which indicated that the documentation was not prepared at the time of its designation. No documentation was prepared for all 10 neighborhoods at the time of designation.

The Development and Resource Management Department director relied on her staff to prepare the necessary documentation. However, she failed to follow up to ensure that it was completed. As a result, the City disregarded and continued to disregard HUD requirements and had not ensured that it used CDBG code enforcement funds to arrest the decline in deteriorating or deteriorated areas, despite HUD's having questioned these matters in two prior monitoring reviews (Background and Objective section). Instead, it used the funds to supplement its code enforcement activities that it could not distinguish from regular responsibilities as a unit of general local government.

- 2) The City did not maintain adequate supporting documentation for staff hours that were charged to its code enforcement budget.

According to 2 CFR Part 225, appendix B(8)(h)(4) and (8)(5)(d), when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation that is signed by an employee. In addition, 2 CFR 200.430(i)(1) and 2 CFR 200.430(i)(1)(ii) state that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed and these must be incorporated into the official records of the non-Federal entity (appendix C).

Between fiscal years 2012 and 2016, the City did not maintain adequate records to support the distribution of salaries, wages, and recurring vehicle allowances charged to CDBG. The City used two different payroll allocation methodologies during this period. The first methodology involved allocating payroll hours to both general funds and CDBG, and the second methodology involved allocating payroll hours exclusively to CDBG. Generally, the City maintained only its electronic PeopleSoft timesheets to support charges to CDBG.¹ However, these timesheets showed only the number of hours allocated to a specific fund and did not show that locations where inspectors performed code enforcement activities were deteriorated.

¹ The Oracle PeopleSoft system allows the City to report staff hours on an electronic timesheet.

The City stated that it maintained time distribution reports for its staff between September 9, 2013, and June 23, 2014, and for its coordinators after June 23, 2014. Time distribution reports would show the number of hours worked, location, and activity and whether the activity was CDBG or non-CDBG related. Except for its coordinators, the City did not maintain time distribution reports for its staff before September 9, 2013, and after June 23, 2014. A reason for not maintaining records before September 9, 2013, was not given, only that the City began keeping the reports after city managers visited the HUD regional office in San Francisco to discuss their findings from the 2012 HUD monitoring report. The City stated that it stopped recording time when the NRT was formed, around June 2014, because the intent was for the team to work exclusively in CDBG targeted areas and staff time was allocated 100 percent to one cost objective.

A sample review of 130 payroll records² found problems with both the City's time distribution reports and case activity listings. Issues with the time distribution reports included missing and unsigned reports, activities performed citywide or locations not adequately identified, discrepancies between the reports and PeopleSoft timesheets, and total hours worked and activities performed not identified. The case activity listings were also inadequate to properly identify the majority of hours worked and activities performed. Inspection staff had also been required to perform noneligible activities that were not identified in these records, such as crosswalk duties for schools and observing people in the neighborhood. As a result, the accuracy and completeness of these records was questionable. In addition, in five cases, the City charged payroll costs to CDBG code enforcement for staff that should have been allocated to the general fund totaling \$4,565 (appendix D).

Further, the City did not properly classify activities in the Integrated Disbursement and Information System (IDIS).³ Chapter 12 of the Basically CDBG Handbook states that grantees must enter data on the activity level into IDIS to help show HUD that the activity was eligible and met the national objective (appendix C). However, although the City had a separate IDIS line item and budget for public service activities, it attributed its planning, outreach, and capacity building costs⁴ to the code enforcement budget. As a result, the City improperly used IDIS activity numbers and misreported the activities.

In February 2017, the NRT manager instructed his staff members to stop entering their time into the electronic PeopleSoft system because they were generating too many coding errors and subjectively determining the type of activities worked. Without supporting

² See the Scope and Methodology section for discussion of the sample selection.

³ IDIS is a nationwide database that provides HUD with current information regarding the program activities underway across the Nation. HUD uses this information to report to Congress and to monitor grantees. IDIS is the drawdown and reporting system for CDBG.

⁴ Policy, planning, management, and capacity building are eligible CDBG activities under 24 CFR 570.205 (appendix C).

documentation, a City accountant or auditor enters time into PeopleSoft for the NRT staff based on this methodology:

- Coordinators – 100 percent to outreach-planning activity
- Inspections – 100 percent to inspections activity
- NRT manager – full-time equivalent of coordinators to inspectors

Inspectors stated that they did not exclusively perform inspection activities. The NRT manager confirmed that in addition to inspection activities inspectors also performed other activities, such as reporting public right of way issues to appropriate departments, coordinating landlord forums, working in the Restore Fresno outreach trailer, etc., which he believed fell under the “inspection” category. However, his interpretation is contrary to the Guide to National Objectives and Eligible Activities for Entitlement Communities, which states that eligible code enforcement activities involve payment of salaries and overhead costs related to the enforcement of State and local codes (appendix C).

Before the NRT manager’s instructions, the inspectors were appropriately allocating their time between inspections and planning. With the approval of the director and assistant director of the Development and Resource Management Department, the business manager responsible for payroll retroactively adjusted the PeopleSoft timesheets from July 1, 2016, to present to reflect the above methodology even if an inspector worked on an outreach or planning activity. By making these retroactive adjustments, the City inappropriately misrepresented that its inspectors worked entirely on inspection activity.

Based on our audit sample, we determined that the City did not maintain adequate documentation to support its code enforcement staff hours charged to the program. We, therefore, determined that salaries, fringe, and recurring vehicle allowances of \$4,565 charged to CDBG were ineligible and \$441,442 was unsupported (appendix D).

- 3) The City charged additional questionable amounts to CDBG code enforcement, including staff hours for non-CDBG-eligible activities; administrative overhead staff salaries; unsupported payroll adjustments; and vehicle maintenance, gas, and radio costs, without adequate documentation.
 - **Tire team:** Between fiscal years 2012 and 2014, the City allocated \$139,071 in salaries for tire team staff to CDBG (appendix D). According to the City’s website, the tire enforcement program was funded by the City’s general fund and the California Integrated Waste Management Board. The City received four State-sponsored grants for waste tire enforcement, amnesty, and cleanup during the years 2012 and 2015 amounting to \$670,000, yet it allocated salaries for its tire team staff to the code enforcement budget. City staff believed that this occurred because there was not sufficient funding from the State-sponsored grants to cover salaries; therefore, salaries were shifted to CDBG. However, according to 2 CFR Part 225, appendix a(3)(c), any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR Part 225 may not be charged to other

Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. In addition, the City's 2012 to 2014 annual action plans and 2010 to 2014 consolidated plan did not identify tire enforcement as an approved HUD CDBG activity according to 24 CFR 91.1 (appendix C). Therefore, salary charges of \$139,071 for the tire team were ineligible.

- **Management, administrative, and other salaries:** HUD regulations at 24 CFR 570.202(c) state that the City may charge salaries for code violations and enforcement of codes to CDBG (appendix C). The City did not follow these requirements and charged \$357,821⁵ for employee salaries to CDBG code enforcement between fiscal years 2012 and 2014 for employees who (1) were not code enforcement inspectors (community revitalization specialist), (2) had no CDBG-specific responsibilities, or (3) worked in the Development and Resource Management Department in an administrative capacity.
 - An administrative staff member whose salary was charged to CDBG did not deal with CDBG at all, and her job duties did not focus on CDBG.
 - In another instance, the administrative manager's salary of \$51,490 was allocated and paid from the CDBG code enforcement budget, yet the City later determined that his salary should have been allocated indirectly as part of the cost allocation plan that was charged to CDBG.

The City did not retain time distribution reports in accordance with 2 CFR Part 225, appendix B, before September 2013 or other documentation to support that these employees worked on CDBG activity. It could not show that salaries charged to code enforcement were related to CDBG; therefore, \$357,821 in salary charges was unsupported (appendix C).

- **Payroll adjustments:** HUD regulations at 2 CFR Part 225, appendix B(8)(h)(1), and 2 CFR 200.403(g) require payroll costs to be adequately documented. In addition, the City's 2014 policies and procedures required costs to be allocated to the correct fund account to maintain budget controls over the comingling of funds. Further, 2 CFR Part 225, appendix a(3)(c), states that any costs may not be charged to other Federal awards to overcome fund deficiencies (appendix C). The City drew down CDBG code enforcement grant funds in the amount of \$203,602 to pay for payroll adjustments between fiscal years 2012 and 2014. The City was unable to provide documentation to support these adjusted amounts. They

⁵ The unsupported management, administrative, and other salaries for fiscal years 2012 to 2014 totaled \$640,594; however, the amount was adjusted down to \$357,821 to avoid double counting funds that HUD had previously questioned in its monitoring report (Background and Objective section).

appeared to be a mix of employee salaries and fringe-related costs that were transferred from a City fund into the CDBG designated fund; however, no payroll documentation was available to support these costs.

- **Vehicle maintenance and gas charges:** According to 24 CFR 570.506(a), each recipient must establish and maintain sufficient records to show that it has met requirements (appendix C). The City did not maintain vehicle logs to show that gas and maintenance charges for 47 vehicles and a portable radio were used for code enforcement inspections in CDBG-eligible areas during fiscal years 2013 and 2014. Although the City maintained fleet reports showing the total charges per vehicle and was able to generate vehicle activity reports showing a vehicle's location during a specific point in time, it did not maintain a historical listing of employees who used or were assigned the vehicles. Therefore, the City could not show that only code enforcement inspectors used the vehicles in CDBG-eligible areas, and the total cost charged of \$109,877 was unsupported (appendix D).

The City could not explain why these questionable charges occurred or provide additional documentation to show that they were CDBG related. The business manager currently responsible for the payroll of the Development and Resource Management Department stated that the management analyst, who was responsible for these various allocations, no longer worked for the City. Email documentation from the management analyst showed financial problems with City funds in 2012 and that "even moving some staff time over to CDBG, we are essentially out of money for FY [fiscal year] 2012." Further, the business manager could not explain why these inappropriate charges were occurring in fiscal year 2014 after she took the payroll function from the management analyst, who left the City in 2013. As a result, the City spent \$139,071 on ineligible costs and more than \$671,300 on unsupported costs.

Due to the extent of inaccuracies and lack of documentation throughout the sampled payroll, combined with the City's inadequate practices and controls, the remaining untested code enforcement payroll costs of more than \$3.5 million charged to CDBG during the audit period were also questionable. Overall, the City spent \$143,636 on ineligible costs, spent more than \$6.5 million on unsupported costs, and put \$428,373 at risk over the next year in its code enforcement activity.

The City Did Not Ensure That Antiraffiti Program Salaries Were Primarily CDBG Related

Contrary to 2 CFR 200.430(i)(1), which states that Federal awards for salaries and wages must be based on records that accurately reflect the work performed, the City did not properly allocate salaries to CDBG as reported by employees on activity reports (appendix C). In fiscal year 2016, the City allocated \$303,919 in CDBG funds for its antiraffiti program salaries from a total draw

of \$342,084. A review of \$155,562 in timesheets⁶ and activity reports during a 5-month period showed that

- Six of the nine employees reported on their activity reports that they worked some hours at non-CDBG designated areas, although 100 percent of their time was charged to and paid by CDBG.
- Six of the nine employees reported some hours worked as “downtime,” which included activities such as breaks, time off, meetings, or maintenance, but it was not clear whether those hours were related to CDBG or non-CDBG areas.
- Three of the nine employees did not record actual daily hours worked on a timesheet and instead estimated time worked and charged to CDBG.

Job title	Ineligible	Unsupported - downtime hours	Unsupported	Total
Lead inspector	\$4,140	\$5,224		\$9,364
Inspector - graffiti abatement	5,383	4,159		9,542
Inspector - graffiti abatement	180	3,978		4,158
Inspector - graffiti abatement	409	2,890		3,299
Inspector - graffiti abatement	5,930	2,477		8,407
Inspector - graffiti abatement	3,877	3,284		7,161
Community sanitation manager			\$25,267	25,267
Police lieutenant			15,020	15,020
Police lieutenant			7,371	7,371
Totals	19,919	22,012	47,658	89,589

The community sanitation manager attributed this condition to an oversight on his part. However, he believed allocating hours for work in non-CDBG areas would not result in additional costs to CDBG, despite the lack of evidence, because both the CDBG and non-CDBG teams worked mostly in CDBG areas. Overall, \$19,919 in antigraffiti costs were ineligible, and \$69,670 (22,012 + 47,658) was unsupported (appendix D). Because the City used this same methodology in allocating salary charges, the remaining \$148,358 allocated to CDBG was also questionable.⁷

⁶ See the Scope and Methodology section for discussion of the sample selection.

⁷ The antigraffiti department stopped receiving CDBG funds in fiscal year 2017. The City made a substantial amendment to its annual plan to award CDBG funds to more subrecipients. As a result, City-designated departments, like antigraffiti, are no longer awarded funds. Therefore, a recommendation to develop and implement written policies and procedures is not necessary.

The City Did Not Ensure That the After School Program Met a National Objective

The City did not ensure that a program met one of HUD's CDBG national objectives in accordance with 24 CFR 570.208(a)(2) (appendix C). The City reported that the after school program met the limited clientele objective; however, it did not maintain accurate records to show that at least 51 percent of beneficiaries at all 11 community centers were low to moderate income. The City reported that more than 90 percent of persons served in fiscal years 2015 and 2016 were low to moderate income; however, this figure was incorrect because the City did not include participants who did not submit self-certification forms. If those were added, the percentage of beneficiaries certified as low to moderate income would significantly decrease. Although it collected some self-certification forms, the City stated that it had a difficult time collecting forms from its after school program participants.

The City maintained daily attendance sheets for all 11 locations to account for the number of participants in the after school program. However, the spreadsheet was not accurate in that it omitted names of some participants, resulting in an inaccurate count of beneficiaries served. Staff indicated that names had been removed because the participants no longer came to the center. In addition, one center did not maintain a running total of participants and did not know it was required to do so. Therefore, the City could not provide an accurate population of CDBG participants, nor could it show that at least 51 percent of the population served were low to moderate income. Staff working at the centers were not familiar with the CDBG program or its requirements. They stated that they were not provided with written policies and procedures, nor were they given formal training on HUD requirements. As a result, the expenditures of more than \$1.1 million drawn down from the program for fiscal years 2015 and 2016 were unsupported (appendix D).

The City Did Not Monitor Its City Departments or Subrecipient

According to 2 CFR 200.331 (d), the City must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subaward and that subaward performance goals are achieved (appendix C). However, the City had not performed a monitoring review or established contractual agreements with its departments, nor had it performed an onsite monitoring of its only subrecipient, Fair Housing Council of Central California, during fiscal years 2014 and 2016. Its monitoring review consisted of only desk reviews from its City departments and subrecipient before it drew down funds from IDIS. The City was unable to locate copies of its monitoring report for its most recent onsite monitoring of its subrecipient; therefore, it could not show that it performed onsite monitoring.

The City also did not obtain sufficient supporting documentation from the Fair Housing Council of Central California for its fiscal years 2015 and 2016 vouchers, which totaled \$55,000 (appendix D). There were no timesheets to show how much of an employee's time was allocated to CDBG. For other direct costs, the subrecipient provided copies of checks but no invoices, receipts, or other internally maintained documentation. Therefore, the City did not perform sufficient desk monitoring. The CDBG administrator stated that she was overburdened with work and there was a lack of capacity.

The City Did Not Use Program Income Before Its Entitlement Grant Funds and Did Not Report Program Income to HUD in a Timely Manner

Regulations at 24 CFR 570.504(b)(2)(i) state that program income must be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity (appendix C). However, in one instance, the City drew down CDBG entitlement grant funds before it used \$188,083 in program income. The CDBG administrator was unable to explain why this occurred.

In addition, the Federal financial report instructions to standard form 425 state that the submission of an interim Federal financial report will be on a quarterly, semiannual, or annual basis, as directed by the Federal agency (appendix C). However, the City failed to report program income in IDIS at least once during calendar year 2015, although internal documentation clearly showed that it earned program income during that year. The program income for 2015 was finally reported in IDIS in 2016. The City stated that although the CDBG administrator who normally performed this function was out of the office through June 2015, other staff and the former housing division manager could have stepped in and taken over. The City had since implemented new procedures to report program income monthly in IDIS.

The City Lacked Capacity, Experience, and Controls To Administer Its CDBG Program

The problems discussed above occurred because the City lacked the capacity, experience, and controls to administer and implement its CDBG program. The Development and Resource Management Department director had not had CDBG training in 10 to 15 years, while the assistant director had not had CDBG training or any prior CDBG experience. Further, the neighborhood revitalization manager, who had held this position for less than a year, had not had CDBG training or prior code enforcement job experience, and the business manager responsible for processing payroll had received no CDBG training. The only person with CDBG experience was the designated CDBG administrator; however, she had only been available to work on a limited basis over the last 4 years. The City hired a consultant in mid-2015 to help resolve the HUD 2012 monitoring findings, yet based on the finding above, the City still had not corrected the problems and followed HUD requirements. Therefore, the lack of capacity and management experience impaired the City's ability to administer its CDBG program.

In addition, the City had not updated or implemented its 2014 CDBG written policies and procedures. For instance, the policies and procedures stated, "...depending on the complexity of the specific project, CDBG Program staff will formally monitor departments and subrecipients one or more times during the program year..." (appendix C). However, based on our review, staff had not monitored departments or the City's subrecipient one or more times during the year. The City also had not finalized and disseminated its department-specific code enforcement written policies and procedures to the appropriate staff.

Further, the City had not established the contractual agreements with recipient departments as cited by HUD⁸, which would specify the manner in which funding is to be used. It had not held each recipient department accountable to comply with HUD program guidelines. As a result, the City added to its capacity issue by not delegating part of the responsibilities for executing and complying with HUD program requirements from the administrator to each recipient department.

Conclusion

The City did not administer its CDBG funds in accordance with HUD requirements. It failed to follow code enforcement, payroll allocation, national objective, monitoring, and program income requirements to support the eligibility of costs charged to the program. We attributed this condition to the City's disregard of HUD requirements, although it had been repeatedly advised by HUD of the requirements since the 2012 monitoring. The City also lacked capacity, experience, and internal controls to administer the program. As a result, it spent \$163,555 on ineligible costs, and HUD did not have adequate assurance that more than \$7.9 million in grant funds was used for eligible purposes (appendix D). Further, we project that the City will put \$428,373 for code enforcement over the next year at a risk if it fails to alter its procedures and require its staff to properly account for its time and activities.

Recommendations

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

- 1A. Support the eligibility of \$6,529,500 in code enforcement costs, including meeting code enforcement requirements, preparing time distribution reports, and supporting vehicle costs, or repay the program from non-Federal funds (appendix D).
- 1B. Suspend funding to its code enforcement program until it can show that it has implemented controls, addressed its capacity issues, and understands and abides by HUD requirements.
- 1C. Repay the program \$4,565 from non-Federal funds for ineligible code enforcement program costs.
- 1D. Repay the program \$139,071 from non-Federal funds for ineligible tire team code enforcement program costs.
- 1E. Repay the program \$19,919 from non-Federal funds for ineligible antigraffiti program salary costs.

⁸ HUD's 2012 monitoring review (see Background and Objective) had recommended the City implement a financial management policy that describes how grant funds can be used internally by City departments and the method by which the use is documented.

- 1F. Support the eligibility of the \$1,107,000 in after school program costs, including meeting the limited clientele national objective, or repay the program from non-Federal funds.
- 1G. Support the eligibility of the \$218,028 in antigraffiti costs or repay the program from non-Federal funds.
- 1H. Support the eligibility of the \$55,000 subrecipient drawdown or repay the program from non-Federal funds.
- 1I. Develop and implement written code enforcement policies and procedures to meet CDBG requirements or amend the funding for another CDBG-eligible project. Improving code enforcement controls will result in \$428,373 in funds to be put to better use.
- 1J. Execute contractual agreements with each CDBG recipient department to ensure compliance with all Federal guidelines.
- 1K. Develop and implement written policies and procedures for specific departments, update and implement CDBG-specific written policies and procedures, and provide formal training and technical assistance to the Development and Resource Management Department employees to ensure that they understand and follow CDBG requirements.
- 1L. Develop and implement a monitoring program within the City's Development and Resource Management Department to ensure that it periodically monitors and provides guidance to its subrecipient(s) and City departments on how to administer CDBG funds.

Scope and Methodology

We performed our audit fieldwork at the City's office located at 2600 Fresno Street, Fresno, CA, and our Los Angeles, CA, office between October 25, 2016, and April 28, 2017. Our audit period covered July 1, 2014, to September 30, 2016, which we expanded when necessary.

To accomplish our objective, we

- Reviewed applicable CDBG program requirements and applicable Federal regulations.
- Reviewed relevant background information, including organizational charts, grant agreements, grant applications, written policies and procedures, audited financial statements, consolidated and annual action plans, and consolidated annual performance evaluation reports.
- Interviewed appropriate City and HUD staff.
- Reviewed HUD monitoring reports.
- Reviewed reports from IDIS to obtain CDBG disbursements for the period tested. We reviewed backup documentation to support IDIS disbursements. Our assessment of the reliability of IDIS was limited to the data sampled, and the data were reconciled with data in the City's records. We did not assess the reliability of the systems that generated the data.
- Reviewed attendance sheets and self-certification documentation.
- Reviewed subrecipient payment requests and supporting documentation.
- Reviewed the City's program income records.
- Performed a site visit to five targeted neighborhoods.

The audit universe consisted of 30 vouchers totaling more than \$3.2 million in expenditures for the period July 1, 2014, to June 30, 2016. Overall, we selected and subsampled on a nonstatistical basis \$987,400 from five vouchers to identify areas that required further review. The five vouchers totaled more than \$2 million in expenditures. Our audit results were limited to the vouchers in our sample and cannot be projected to the universe. For the audit phase, we focused on areas of concern identified in the survey (code enforcement, after school, and antigraffiti programs; program income; and subrecipient monitoring).

- **Code enforcement:** The City had more than \$6.6 million in code enforcement salary charges for fiscal years 2012 to 2017. We reviewed various costs associated with code enforcement, which included

1. A nonstatistical sample of

- 10 records selected and reviewed for salary payments totaling \$89,650 that were paid out in fiscal years 2012 and 2013. In addition, there were salary payments totaling \$779,666 for 30 employees whose job titles were not community revitalization specialist or were confirmed to be part of the tire team in fiscal years 2012, 2013, and 2014. The universe totaled payments of more than \$1.8 million, \$1.795 million, and \$1.3 million, respectively.
- 31⁹ records selected and reviewed for salary payments totaling \$105,315¹⁰ for the pay period ending months of September, October, and November 2014 from a code enforcement voucher of \$518,695. These pay periods were selected for review because of the high payroll ending amounts.
- 39¹¹ records selected and reviewed for salary payments totaling \$112,071¹² for the pay period ending months of November and December 2015 and January 2016 from a code enforcement voucher of \$315,722. These pay periods were selected for review because of the high payroll ending amounts
- Vehicle maintenance and gas expenses selected for 47 vehicles and 1 portable radio totaling \$109,877 for fiscal years 2013 and 2014. These expenses were selected because of the significant amount of CDBG funds going to pay them.

We used a nonstatistical sample because it would not be practical to review 100 percent of the supporting documentation during our audit timeframes due to the large number of records. We cannot project the results of our testing. However, our review of the payroll records, combined with the statistical sample below, interviews, and the City's lack of adequate procedures and controls resulted in our questioning the remaining payroll attributable to the audit period. We provided the City with our finding outline and separate schedules to help it identify the questioned records.

2. A statistical sample of 50 records totaling \$138,970 was selected and reviewed from a universe of 348 records for staff members that charged time and recurring vehicle allowances to code enforcement from June 1, 2014, to June 12, 2016. The audit universe totaled payments of \$954,392. We projected the results of our testing and found that in 45 of 50 records reviewed, the City did not have proper documentation to support salaries paid for code enforcement activities in the CDBG program. This amounts to a weighted average of \$2,689 per salary record paid. In the context of the total universe of 348 salary payments in the universe, this amounts to at least \$873,221 in salaries paid without time distribution reports or sufficient activity

⁹ Four of thirty-five records were removed from total selection because they were selected in our statistical review.

¹⁰ Total salaries drawn down from the grant equaled \$119,165; however, \$13,850 was deducted because it represented the salaries paid to employees whose timesheets were also selected using a statistical methodology.

¹¹ Six of forty-five records were removed from total selection because they were selected in our statistical review.

¹² Total salaries drawn down from the grant equaled \$130,213; however, \$18,142 was deducted because it represented the salaries paid to employees whose timesheets were also selected using a statistical methodology.

listings. If the City continues to disburse salary payments without support, over the next year, this amounts to at least \$428,373 in salaries. We relied on the work of our statistician, who generated these numbers based on the results of our testing. We provided the City with our finding outline and separate schedules to help it identify the questioned records.

- **Antigraffiti:** During 2014 and 2015, the City's antigraffiti program drew down \$384,212 from IDIS. We nonstatistically sampled one voucher, 5906620, based on the largest total amount drawn of \$342,084. Salary payments totaling \$105,107 for the pay period ending months of July, August, and September 2015 were selected. These pay periods were selected for review because of the high payroll ending amounts. During the audit phase, we selected salary payments totaling \$50,454 from the same voucher for the pay period ending months of February and March 2016. We selected the additional sample for review to determine whether the issues we identified in our initial sample were systemic. We cannot project the results of our testing; however, since the same questionable practices were in place, we questioned the remaining salary associated with the draw.

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

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 Deficiencies

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

- The City lacked the capacity and experience to administer its CDBG program to ensure that it complied with HUD requirements (finding 1).

- The City lacked controls, including written policies and procedures, to ensure that program activities complied with HUD requirements (finding 1).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$6,529,501	
1B			
1C	\$4,565		
1D	139,071		
1E	19,919		
1F		1,107,000	
1G		218,028	
1H		55,000	
1I			\$428,373
Totals	163,555	7,909,529	428,373

- 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 instance, the ineligible costs included \$143,636 in payroll charges (\$4,565 in code enforcement salaries that were allocated to general funds on timesheets but paid by CDBG and \$139,071 for the tire team salaries charged to CDBG) and \$19,919 in payroll charges for the antigraffiti team for work conducted in non-CDBG-eligible areas (see appendix D).
- 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. In this instance, the unsupported costs included (1) \$6,529,501 for code enforcement costs without documentation supporting that areas worked by code enforcement staff were deteriorated, (2) \$1,107,000 for after school program costs without documentation supporting that it met a HUD national objective, (3) \$218,028 for antigraffiti payroll costs without documentation supporting that the employees worked on CDBG-related activities, and (4) \$55,000 it reimbursed to its subrecipient without adequate documentation to support that the costs were eligible (appendix D).

- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, the funds to be put to better use of \$428,373 represent the annualized projection of questionable payroll charges to CDBG that will be avoided if the City implements additional policies and procedures for its code enforcement program in accordance with HUD requirements.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



WILMA QUAN-SCHETER
City Manager

July 25, 2017

Tanya Schulze, Regional Inspector General for Audit | Region 9
U.S. Department of Housing and Urban Development
Office of Inspector General
300 N. Los Angeles Street, Suite 4070
Los Angeles, California 90012

Dear Ms. Schulze:

Please know that I appreciated having an opportunity to meet on July 14, 2017 and review the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General's (OIG) draft audit report resulting from the recently completed audit of the City's Community Development Block Grant (CDBG) funds. I would like to acknowledge that the recommendations and observations included in the draft report are viewed as an opportunity to continue improving the CDBG program in our community, where the investment has contributed to improving blighted conditions.

It is important to note that the City has taken the OIG instructions very seriously related to safeguarding the draft report to prevent premature publication or improper disclosure of the statement of information it contains, we acknowledge that the reproduction of the draft without your consent is prohibited and will await further direction from the OIG before any further action is taken.

While the City recognizes that there is an ongoing need for improvement, specifically related to recordkeeping and documentation, I am confident that the City has administered CDBG funds for meaningful activities that have contributed to significant improvements for low to moderate income neighborhoods. The City is currently evaluating options for additional technical assistance necessary to resolve any outstanding items in a timely fashion and is committed to continuing the existing work with HUD's Office of Community Planning and Development Division representatives to resolve all the issues raised. In addition, the City is currently evaluating the most effective placement of this work within our organization to ensure compliance for recordkeeping and financial management of entitlement programs.

Again, I would like to express my appreciation to you and your team for the discussion and other materials outlined in the draft report that will allow us not only to better document programs from the audit period as far back as 2012, but also so that we may look forward to ensure that best practices are in place moving forward. For example, one instance that was clearly a challenge to properly document was related to code enforcement activities. I am pleased to confirm that the City adopted its 2017-2018 Budget in June 2017 and no longer funds these activities from CDBG monies. In fact, the five-year budget projections reflect code enforcement activities being funded with general fund monies rather than CDBG.

City of Fresno

Auditee Comments and OIG's Evaluation

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Auditee Comments

U.S. Department of Housing and Urban Development
OIG Draft Audit Report
Page 2

Please see the following comments for inclusion in the final audit report when it is produced.

Respectfully,



Wilma Quan-Schechter
City Manager

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

Comment 4

City of Fresno – Response to Draft Audit Report of Office of Inspector General

Audit of City of Fresno Community Development Block Grant (CDBG) Funds
October 25, 2016 through April 28, 2017

INTRODUCTION

The audit conducted by the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) was conducted onsite at the City of Fresno (City), located at 2600 Fresno Street, Fresno, California between October 25, 2016, and April 28, 2017.

The City would like to extend its appreciation to the OIG for the professionalism of the auditors assigned to the City, [REDACTED] and [REDACTED]. Similar to the experience of City staff, the auditors were impacted by a complete office move and reconfiguration of the division responsible for managing CDBG funds. Shortly after resettling, the division, including the auditors, was again impacted by carpet installation.

The time period outlined for the initial audit was planned for July 2014 through June 2016. However, it was expanded as far back as 2012. It is important to note that the OIG report also covers previous activities and time periods monitored by HUD's San Francisco Office of Community Planning and Development (CPD). The City continues to work with CPD representatives to resolve remaining findings from related audits of this overlapping time period.

It was anticipated that the remaining CPD monitoring items were to be resolved by December 2016. However, with the retirement of the CPD Director, the timing of the OIG audit, and the City's capacity to manage several audits, current activities, and complete the 2017-18 Annual Action Planning process during a year of federal budget uncertainty, the resolution has been delayed. The City is committed to continuing this work with CPD representatives, and is evaluating additional technical assistance opportunities to ensure the timely closure of outstanding items.

The evaluation of additional technical assistance is an essential component of ensuring that the City properly document many of the recommendations outlined in the OIG report. While staffing capacity is discussed in greater detail throughout this response, it is important to note that several of the individuals implementing activities for the time period audited by the OIG are no longer with the City. In addition, during the audit, some key existing staff were unavailable due to restricted and protected leaves.

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* Names removed for privacy.

Auditee Comments and OIG's Evaluation

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Although one key member of the Housing Division remains on leave at this time, and an additional CDBG project manager vacancy still remains, the City continues to develop staffing capacity. In November 2016, the vacant Housing Division manager position was filled by [REDACTED]. Mr. [REDACTED] has extensive CDBG experience and has quickly become a valuable member of the City team. On May 15, 2017, the City finalized the hiring process for [REDACTED] as a Senior Management Analyst in the Housing Division; this position was created to focus on compliance and monitoring current program activities, including subrecipients. Mr. [REDACTED] also brings previous expertise related to CDBG. In addition, the City continues to contract with Usona Development for additional technical assistance related to CDBG.

Please be assured that the City is committed to resolving the finding addressed in the OIG report.

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* Names removed for privacy.

Auditee Comments and OIG's Evaluation

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Auditee Comments

Comment 5

Comment 6

Comment 7

Comment 8

FINDING 1: City Did Not Administer CDBG in Accordance with Requirements

A. The City's Code Enforcement Activity Did Not Meet HUD Requirements

1. The City acknowledges that it did not have a way to measure the impact of code enforcement activities during the time outlined in the report, beginning in 2012, and is committed to continuing the work with HUD CPD representatives to document that the activities completed arrested the decline in CDBG areas.

2. Again, the City acknowledges and continues to work with HUD CPD representatives to provide adequate supporting documentation related to staff hours charged to code enforcement during this time period. The use of electronic timesheets for this purpose was determined to be insufficient. While there is institutional knowledge and e-mails indicating that previously employed individuals were completing an additional level of review and documentation in the format of hard-copy timesheets, existing staff have been unable to locate those timesheets that would include the locations where inspectors performed enforcement activities, in addition to their hours worked. The City and CPD continue to evaluate other methods, such as case files, for documenting staff hours sufficiently.

3. The City will further research and provide documentation for the questionable amounts of CDBG funds related to code enforcement outlined by the OIG, specifically the 2012-2014 Tire Enforcement Program related salaries, unsupported management and administrative salaries, payroll adjustments and vehicle maintenance.

B. The City Did Not Ensure That Antigrffiti Program Salaries Were Primarily CDBG Related

The City will obtain additional information to determine if the timesheet description of "non-CDBG" listed on the employee timesheets was referencing whether or not the area was non-CDBG according to HUD guidelines or if they were self-defined CDBG areas determined by the anti-graffiti staff that potentially did not correlate with the CDBG eligible areas defined by HUD. The City will work with HUD CPD representatives to address this amount assumed to be ineligible, if agreed that it was outside of the HUD CDBG areas, the

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 9

City will repay \$19,919. The City will also work with HUD CPD representatives to document any unsupported or questionable amounts identified by the OIG.

C. The City Did Not Ensure That the After School Program Met a National Objective

The City recognizes that the OIG was unable to determine the total population of individuals served by the After School Program; therefore, stating that the City did not ensure the program met a National Objective. Although the City provided boxes of self-certification forms obtained from participants of the After School Program during the OIG field work time period, there was insufficient documentation to state with certainty that 51 percent of beneficiaries at all 11 community centers were low to moderate income. The City is confident that participants of the After School Programs, offered in low-income areas of the community, are eligible and that the National Objective was met. The City will work with HUD CPD to ensure that the National Objective was met.

It is also important to note that there are many challenges with obtaining income verification for this much needed public service. The City has been in discussions with HUD CPD to determine if another National Objective better serves the clients in these low-income areas.

D. The City Did Not Monitor Its City Departments or Subrecipient

The City provided "Basically CDBG" training for departments, however, acknowledges that ongoing training and monitoring of activities is needed. A desk-monitoring of invoicing materials from City departments has previously been the extent of monitoring. As mentioned throughout this response, the City will begin implementing a Notice of Grant Award Agreements detailing Federal requirements and the responsibilities of the City Department in meeting the requirements while delivering the CDBG-assisted activity. Program staff will continue to conduct desk reviews in conjunction with invoice processing. Additionally, a member of the division's new compliance and reporting unit will conduct an annual onsite monitoring visit and issue a compliance monitoring report. A second or follow-up on-site monitoring visit will be conducted should the initial on-site monitoring identify deficiencies and corrective actions that are difficult to further monitor through desk reviews.

During the time period audited, the City had one CDBG Subrecipient, the Fair Housing Council of Central California (FHCCC). Federal statute requires that no funds may be distributed to local government unless the locality affirmatively furthers fair housing. The

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Comment 10

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Auditee Comments

FHCCC has been a subrecipient assisting the City with accomplishing this goal for a number of years and City staff has historically conducted desk-monitoring of the subrecipient. However, the City acknowledges an annual on-site monitoring review is a best practice. Toward this end, the City conducted an onsite monitoring of the FHCCC in June 2017 and provided the subrecipient with a monitoring letter in July 2017. Annual, on-site monitoring of all activities managed by subrecipients will be the standard and conducted by the applicable program managers. Additionally, the division's compliance and reporting unit will follow-up and sample program manager reviews.

E. The City Did Not Use Program Income Before Its Entitlement Grant Funds and Did Not Report Program Income to HUD in a Timely Manner

OIG identified that in one instance the city drew down CDBG entitlement grant funds before it used program income. Prior to the OIG field work beginning in October 2016, the City had implemented policies and procedures requiring that the Accountant/Auditor perform the receipting of program income monthly. All staff performing draws in IDIS have participated in additional training and the Housing Manager ensures that program income is drawn prior to entitlement grant funds. The City would like to thank the OIG for acknowledging that, prior to the audit, the City had already implemented new procedures to report program income monthly in IDIS.

F. The City Lacked the Capacity, Experience, and Controls To Administer Its CDBG Program

The City acknowledges that staffing capacity issues exist. While improvements have recently been made with new hires bringing CDBG experience, recruiting and retaining staff with the technical skills and the experience necessary to properly administer and implement CDBG activities has been challenging. The majority of staff implementing the CDBG programs during the time period audited are no longer with the City. It was the responsibility of remaining and new staff members to respond to detailed requests for information as far back as 2012. The City acknowledges that proper documentation and filing systems are essential to ensure that this is not a challenge moving forward, and is committed to ensuring that the necessary training and technical assistance required is in place moving forward.

Comment 11

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Auditee Comments

Comment 12

Comment 13

Comment 14

Comment 8

Comment 15

Comment 15

Comment 15

Comment 13

RESPONSES TO SPECIFIC RECOMMENDATIONS

1A Support Eligibility of \$6,529,500: The City will continue working closely with HUD's CPD representatives to document and support the eligibility of \$6,529,500 in code enforcement costs. Again, it is important to note that this work has been under way in some capacity since September 2013, and more intensively beginning renewed efforts in January 2015.

1B Suspend Code Enforcement Funding: Prior to receiving the OIG recommendation, the City had suspended CDBG funding to code enforcement related programs. Because the City is confident that meaningful work is being accomplished through the Neighborhood Revitalization work in specific low-income neighborhoods, these efforts are now funded through the City's General Fund and reflected as such in the City's five-year budget projections.

1C Repay Ineligible Code Enforcement Costs of \$4,565: The City will repay these funds.

1D Repay Ineligible Tire Team Code Enforcement Costs of \$139,071: The City will repay these funds.

1E Repay Ineligible Anti-Graffiti Costs of \$19,919: The City will perform additional research to determine if additional documentation can be provided that will demonstrate these funds were eligible. If the City is unable to produce the necessary documentation, the City will repay these funds.

1F Support eligibility of \$1,107,000 in After School Funds: The City will provide documentation that demonstrates the After School Program meets the Limited Clientele National Objective and/or continue working with HUD to determine if the Nature Location National Objective is a more feasible match.

1G Support Eligibility of \$218,028 in Anti-Graffiti Costs: The City will work closely with HUD CPD representatives to document and support eligibility.

1H Support Eligibility of \$55,000 for Subrecipient Costs: The City will work closely with HUD CPD representatives to document and support the eligibility of the subrecipient agreements with the Fair Housing Council of Central California.

1I Develop Code Enforcement Policies and Procedures: Because the City has suspended the utilization of CDBG funds for code enforcement related activities, additional efforts to finalize the draft policies and procedures will not be completed at this time. The City does not intend to begin utilizing CDBG funds for enforcement activities again. However, the City is unable to anticipate future administration and council actions. It is important to note that the City's

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Auditee Comments and OIG's Evaluation

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Auditee Comments

Comment 16

adopted Fiscal Year 2018 Budget includes five-year projections that do not include CDBG funding for enforcement activities. The City is committed to requesting HUD CPD review of policies and procedures prior to removing this suspension in the future, if applicable.

1J Execute Contractual Agreements with Recipient Departments: Although the City understands that there is no requirement to execute contractual agreements with internal departments, the City recognizes the efficiencies and compliance that would be gained. Therefore, the City is committed to implementing policies and procedures that require executed Notice of Grant Award Agreements with internal departments moving forward. Agreements will include required attendance at technical workshop towards the beginning of agreement execution, monthly or quarterly progress reports and invoicing depending on activity type and timeline incorporated into the agreements, and implementation and performance timelines.

Comment 16

1K Update, Develop and Implement Policies and Procedures and Provide Formal Training: The City will update CDBG specific policies and procedures to reflect best practices, procedures for specific departments will be outlined in the Notice of Grant Award Agreements and a special section of the CDBG specific policies and procedures. Formal and technical assistance will continue to be offered to City staff, including mandatory financial management. In an effort to ensure that new and existing staff maintains appropriate knowledge of HUD programs, the division manager has required a variety of training. Below is a listing of HUD Webinar seminars and training already completed by various division staff in 2017:

- Financial Management Get in Gear 101
- Financial Management Introduction
- Financial Management: 2 CFR part 200
- Financial Management: Budgeting
- Financial Management CDBG
- Financial Management CoC
- Financial Management Cost Principles
- Financial Management ESG
- Financial Management HOME
- Financial Management HOPWA
- Financial Management Internal Controls
- Financial Management Procurement
- Basically CDBG for Entitlement Grantees, Seattle, WA, July 11 – 13, 2017, Todd Stermer (new hire)

Comment 16

1L Develop and Implement a Monitoring Program: The City will developed a monitoring program to ensure that it periodically monitors and provides guidance to subrecipients and City Departments. Additionally, mandatory subrecipient workshops will be implemented on how to administer CDBG funds.

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OIG Evaluation of Auditee Comments

- Comment 1 We appreciate the City's acknowledgement of the need for improvement and that it views the report recommendations as an opportunity to improve the CDBG program for the Fresno community.
- Comment 2 We recognize the City's acknowledgement of the ongoing need for improvement and commitment to continuing its existing work with CPD to resolve all issues raised.
- Comment 3 We expanded our review of CDBG code enforcement to 2012 to address draw amounts that had not been specifically included or questioned as part of prior monitoring by HUD's San Francisco Office of Community Planning and Development. We did not duplicate costs already questioned by HUD.
- Comment 4 We acknowledge that City staff turnover may have impacted implementing activities for the time period audited and recognize its commitment to developing its staffing capacity; however, had proper documentation been kept and policies and procedures been in practice, the loss of key individuals would not have been as impactful to the operation of the CDBG program.
- Comment 5 We recognize the City's commitment to working with HUD CPD to properly document that the completed activities arrested the decline in CDBG areas.
- Comment 6 We recognize the City's continued work with HUD CPD to provide adequate documentation to support staff hours.
- Comment 7 The City will have the opportunity to provide additional documentation to HUD as part of the audit resolution process to address the unsupported costs; however, we continue to maintain that the tire enforcement salaries were ineligible.
- Comment 8 The City stated it will try and obtain additional information to address the eligibility of the non-CDBG salaries; however, we continue to maintain \$19,919 of anti-graffiti salaries as ineligible. We acknowledge that the City will have the opportunity to work with HUD CPD to resolve the ineligible costs and also document the \$218,028 in unsupported antigrffiti costs as part of the audit resolution process.
- Comment 9 We acknowledge the City's challenges in obtaining income verification from its beneficiaries. However, the City must be able to demonstrate that at least 51 percent of the beneficiaries were low to moderate income at the 11 community centers. Without collecting the proper documentation and recordkeeping, it cannot show that it met HUD's national objective.
- Comment 10 We acknowledge the City's commitment to ongoing training and monitoring of activities.

- Comment 11 We recognize the City's commitment to ensure necessary training and technical assistance is provided to staff to properly administer and implement CDBG activities moving forward.
- Comment 12 We acknowledge that the City has worked in some capacity and will continue to work with HUD CPD to document and support the eligibility of \$6,529,501 in code enforcement costs.
- Comment 13 We recognize that the City took proactive action to suspend CDBG funding to its code enforcement related programs and fund them through General Funds. As part of the audit resolution process, HUD CPD can verify that CDBG funding to the City's code enforcement programs has stopped and that these programs are funded by general funds.
- Comment 14 We acknowledge the City's plans to repay the ineligible amounts as recommended in 1C and 1D.
- Comment 15 We acknowledge the City's plans to work with HUD in the audit resolution process to support the questioned costs.
- Comment 16 We acknowledge the City's plans to implement and update additional procedures, controls, and training to address the report's recommendations.

Appendix C

Criteria

24 CFR 91.1, Subpart A - General

24 CFR 91.1(a), Purpose.

(2) The consolidated submission described in this part 91 requires the jurisdiction to state in one document its plan to pursue these goals for all the community planning and development programs, as well as for housing programs. It is these goals against which the plan and the jurisdiction's performance under the plan will be evaluated by HUD.

(b) *Functions of plan.* The consolidated plan serves the following functions:

- (1) A planning document for the jurisdiction, which builds on a participatory process at the lowest levels;
- (2) An application for federal funds under HUD's formula grant programs;
- (3) A strategy to be followed in carrying out HUD programs; and
- (4) An action plan that provides a basis for assessing performance.

2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

2 CFR 200.302, Financial Management.

(b)(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

2 CFR 200.331, Requirements for pass through entities.

All pass-through entities must:

(b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraph (e) of this section, which may include consideration of such factors as:

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

- (1) Reviewing financial and programmatic reports required by the pass-through entity.
- (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the passthrough entity detected through audits, on-site reviews, and other means.

2 CFR 200.403, Factors affecting allowability of costs.

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

- (g) Be adequately documented.

2 CFR 200.430, Compensation-personal services.

(i) Standards for Documentation of Personnel Expenses

(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

- (ii) Be incorporated into the official records of the non-Federal entity.

- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

- (viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

- (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

- (B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

- (C) The non-Federal entity's system of internal controls includes processes to review after-the fact interim charges made to a Federal awards based on budget estimates.

All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

(8) For a non-Federal entity where the records do not meet the standards described in this section, the Federal government may require personnel activity reports, including prescribed certifications, or equivalent documentation that support the records as required in this section.

2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (Office of Management and Budget Circular A-87)

2 CFR Part 225, Appendix B, Compensation for personal services.

(8)(h) Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h (5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

2 CFR Part 225, Appendix A

C. Basic Guidelines,

(1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- (j) Be adequately documented

(3) Allocable Costs

- (a) A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- (c) Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR Part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

24 CFR Part 570, Community Development Block Grants

24 CFR 570.200, General policies.

(a) *Determination of eligibility.* An activity may be assisted in whole or in part with CDBG funds only if all of the following requirements are met:

- (5) *Cost principles.* Costs incurred, whether charged on a direct or an indirect basis, must be in conformance with OMB Circulars A-87, "Cost Principles for State, Local and

Indian Tribal Governments”; A-122, “Cost Principles for Non-profit Organizations”; or A-21, “Cost Principles for Educational Institutions,” as applicable.

24 CFR 570.202, Code enforcement.

(c) Costs incurred for inspection for code violations and enforcement of codes (e.g., salaries and related expenses of code enforcement inspectors and legal proceedings, but not including the cost of correcting the violations) in deteriorating or deteriorated areas when such enforcement together with public or private improvements, rehabilitation, or services to be provided may be expected to arrest the decline of the area.

24 CFR 570.205, Eligible planning, urban environmental design and policy-planning-management-capacity building activities.

(a) Planning activities which consist of all costs of data gathering, studies, analysis, and preparation of plans and the identification of actions that will implement such plans, including, but not limited to:

(6) Policy—planning—management—capacity building activities which will enable the recipient to:

- (1) Determine its needs;
- (2) Set long-term goals and short-term objectives, including those related to urban environmental design;
- (3) Devise programs and activities to meet these goals and objectives;
- (4) Evaluate the progress of such programs and activities in accomplishing these goals and objectives; and
- (5) Carry out management, coordination and monitoring of activities necessary for effective planning implementation, but excluding the costs necessary to implement such plans.

24 CFR 570.206, Program administrative costs.

CDBG permits payment of reasonable program administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part with funds provided under this part and, where applicable, housing activities (described in paragraph (g) of this section) covered in the recipient’s housing assistance plan. This does not include staff and overhead costs directly related to carrying out activities eligible under §570.201 through §570.204, since those costs are eligible as part of such activities.

(a) *General management, oversight and coordination.* Reasonable costs of overall program management, coordination, monitoring, and evaluation. Such costs include, but are not necessarily limited to, necessary expenditures for the following:

- (1) Salaries, wages, and related costs of the recipient’s staff, the staff of local public agencies, or other staff engaged in program administration. In charging costs to this category the recipient may either include the entire salary, wages, and related costs allocable to the program of each person whose primary responsibilities with regard to the program involve program administration assignments, or the pro rata share of the salary, wages, and related costs of each

person whose job includes any program administration assignments. The recipient may use only one of these methods during the program year.

(e) Indirect costs. Indirect costs may be charged to the CDBG program under a cost allocation plan prepared in accordance with 2 CFR part 200, subpart E.

24 CFR 570.207, Ineligible activities.

(a)(2): The following activities may not be assisted with CDBG funds: General government expenses. Expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance under this part.

24 CFR 570.208, Criteria for national objectives.

(a) *Activities benefiting low- and moderate-income persons.* Activities meeting the criteria in paragraph (a)(1), (2), (3), or (4) of this section as applicable, will be considered to benefit low and moderate income persons unless there is substantial evidence to the contrary. In assessing any such evidence, the full range of direct effects of the assisted activity will be considered.

(The recipient shall appropriately ensure that activities that meet these criteria do not benefit moderate income persons to the exclusion of low income persons.)

(2) *Limited clientele activities.* (i) An activity which benefits a limited clientele, at least 51 percent of whom are low- or moderate-income persons. (The following kinds of activities may not qualify under paragraph (a)(2) of this section: activities, the benefits of which are available to all the residents of an area; activities involving the acquisition, construction or rehabilitation of property for housing; or activities where the benefit to low- and moderate-income persons to be considered is the creation or retention of jobs, except as provided in paragraph (a)(2)(iv) of this section.) To qualify under paragraph (a)(2) of this section, the activity must meet one of the following tests:

(A) Benefit a clientele who are generally presumed to be principally low and moderate income persons. Activities that exclusively serve a group of persons in any one or a combination of the following categories may be presumed to benefit persons, 51 percent of whom are low- and moderate-income: abused children, battered spouses, elderly persons, adults meeting the Bureau of the Census' Current Population Reports definition of "severely disabled," homeless persons, illiterate adults, persons living with AIDS, and migrant farm workers; or

(B) Require information on family size and income so that it is evident that at least 51 percent of the clientele are persons whose family income does not exceed the low and moderate income limit; or

(C) Have income eligibility requirements which limit the activity exclusively to low and moderate income persons; or

(D) Be of such nature and be in such location that it may be concluded that the activity's clientele will primarily be low and moderate income persons.

(b) *Activities which aid in the prevention or elimination of slums or blight.*

Activities meeting one or more of the following criteria, in the absence of substantial evidence to the contrary, will be considered to aid in the prevention or elimination of slums or blight:

(1) *Activities to address slums or blight on an area basis.*

An activity will be considered to address prevention or elimination of slums or blight in an area if:

- (i) The area, delineated by the recipient, meets a definition of a slum, blighted, deteriorated or deteriorating area under State or local law;
- (ii) The area also meets the conditions in either paragraph (A) or (B):
 - (A) At least 25 percent of properties throughout the area experience one or more of the following conditions:
 - (1) Physical deterioration of buildings or improvements;
 - (2) Abandonment of properties;
 - (3) Chronic high occupancy turnover rates or chronic high vacancy rates in commercial or industrial buildings;
 - (4) Significant declines in property values or abnormally low property values relative to other areas in the community; or
 - (5) Known or suspected environmental contamination.
 - (B) The public improvements throughout the area are in a general state of deterioration.
- (iii) Documentation is to be maintained by the recipient on the boundaries of the area and the conditions and standards used that qualified the area at the time of its designation. The recipient shall establish definitions of the conditions listed at § 570.208(b)(1)(ii)(A), and maintain records to substantiate how the area met the slums or blighted criteria. The designation of an area as slum or blighted under this section is required to be redetermined every 10 years for continued qualification. Documentation must be retained pursuant to the recordkeeping requirements contained at § 570.506 (b)(8)(ii).

24 CFR 570.501, Responsibility for grant administration.

(b) The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate action when performance problems arise...

24 CFR 570.504, Program income.

(a) *Recording program income.* The receipt and expenditure of program income as defined in § 570.500(a) shall be recorded as part of the financial transactions of the grant program.

(b) *Disposition of program income received by recipients.*

(1) Program income received before grant closeout may be retained by the recipient if the income is treated as additional CDBG funds subject to all applicable requirements governing the use of CDBG funds.

(2) If the recipient chooses to retain program income, that program income shall be disposed of as follows:

- (i) Program income in the form of repayments to, or interest earned on, a revolving fund as defined in § 570.500(b) shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity. (This

rule does not prevent a lump sum disbursement to finance the rehabilitation of privately owned properties as provided for in § 570.513.)

24 CFR 570.506, Records to be maintained.

Each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part. At a minimum, the following records are needed:

(a) Records providing a full description of each activity assisted (or being assisted) with CDBG funds, including its location (if the activity has a geographical locus), the amount of CDBG funds budgeted, obligated and expended for the activity, and the provision in subpart C under which it is eligible.

(b) Records demonstrating that each activity undertaken meets one of the criteria set forth in § 570.208. (Where information on income by family size is required, the recipient may substitute evidence establishing that the person assisted qualifies under another program having income qualification criteria at least as restrictive as that used in the definitions of “low and moderate income person” and “low and moderate income household” (as applicable) at § 570.3, such as Job Training Partnership Act (JTPA) and welfare programs; or the recipient may substitute evidence that the assisted person is homeless; or the recipient may substitute a copy of a verifiable certification from the assisted person that his or her family income does not exceed the applicable income limit established in accordance with § 570.3; or the recipient may substitute a notice that the assisted person is a referral from a state, county or local employment agency or other entity that agrees to refer individuals it determines to be low and moderate income persons based on HUD’s criteria and agrees to maintain documentation supporting these determinations.) Such records shall include the following information:

(1) For each activity determined to benefit low and moderate income persons, the income limits applied and the point in time when the benefit was determined.

(2) For each activity determined to benefit low and moderate income persons based on the area served by the activity:

(i) The boundaries of the service area;

(ii) The income characteristics of families and unrelated individuals in the service area; and

(iii) If the percent of low and moderate income persons in the service area is less than 51 percent, data showing that the area qualifies under the exception criteria set forth at § 570.208(a)(1)(ii).

(3) For each activity determined to benefit low and moderate income persons because the activity involves a facility or service designed for use by a limited clientele consisting exclusively or predominantly of low and moderate income persons:

(i) Documentation establishing that the facility or service is designed for the particular needs of or used exclusively by senior citizens, adults meeting the Bureau of the Census’ Current Population Reports definition of “severely disabled,” persons living with AIDS, battered spouses, abused children, the homeless, illiterate adults, or migrant farm workers, for which the regulations provide a presumption concerning the extent to which low- and moderate-income persons benefit; or

- (ii) Documentation 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
- (iii) Data showing the size and annual income of the family of each person receiving the benefit.

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

Notice CPD-14-016, Use of CDBG Funds for Code Enforcement Activities

Section I. What is Code Enforcement: The CDBG program will expect that localities emphasize health and safety issues in buildings. Ancillary efforts to address violations of codes concerning vacant lots, signs, and motor vehicles are permitted in conjunction with efforts regarding buildings, but should form a minor part of the code enforcement program.

Section III. Eligible Code Enforcement Costs: To conduct inspections in various areas within its jurisdiction, code enforcement inspectors may require the use of a vehicle. According to § 570.207(b)(1)(iii), purchase of equipment not an integral structural fixture (such as vehicles) with CDBG funds is eligible when necessary for use by a recipient or its subrecipients in the administration of activities assisted with CDBG funds. However, the grantee must be able to demonstrate that the vehicle is only being used for code enforcement inspections in CDBG-eligible areas. This may require logs to be kept for each trip. The vehicle may not be used for any other purpose.

Section IV. Ineligible Code Enforcement Costs: CDBG funds may be used for the costs for inspection of code violations and enforcement of codes in deteriorating or deteriorated areas when such enforcement together with public or private improvements, rehabilitation, or services to be provided may be expected to arrest the decline of the area. While the cost of correcting the violations is not an eligible code enforcement cost under §570.202(c), the regulation states that code enforcement must be performed in conjunction with improvements, rehabilitation, or services. The purpose of this requirement is to ensure that the deteriorated or deteriorating areas are being made safe and sanitary for the general public, not to generate revenue via code violation fines.

Grantees may trigger concerns about the eligibility of code enforcement if it appears that the CDBG program is being used for general government expenses... As fiscal stress has put pressure on local budgets, HUD has seen examples of significant increases in CDBG code enforcement budgets, while overall spending on enforcement remains the same. Grantees should use CDBG for code enforcement as appropriate to advance the goals of the CDBG program in areas designated for such activity.

Grantees may not use CDBG funds to pay for code enforcement inspections and enforcement in every area or neighborhood or for a grantee's entire jurisdiction (e.g., city- or county-wide) unless the entire jurisdiction is deteriorating.

Section V. National Objectives for Code Enforcement:

F. Other National Objective Compliance Considerations

Grantees must ensure that they are not paying the salaries for code enforcement personnel over their entire jurisdiction, unless the grantee has determined that its entire jurisdiction is deteriorated or deteriorating. The areas where the inspections are being carried out using code enforcement inspectors whose salaries are paid with CDBG funds must be deteriorated or deteriorating. In some communities, this will be areas that demonstrate substantial abandonment or that are designated as slum/blighted areas by local or state law.

Section IX. Record Keeping Requirements: In addition, grantees must also have records that demonstrate how activities meet the criteria for national objectives in §§ 570.208 or 570.483. Records that grantees should maintain when carrying out CDBG-assisted code enforcement activities include:

- The state and local law definitions of deteriorated/deteriorating.
- A description of the conditions of the areas in which CDBG funds are used for code enforcement, demonstrating that these areas meet the state local law definition of deteriorated/deteriorating.
- Identification of other activities to be carried out (whether CDBG-assisted or not) that will arrest the decline of the areas and their funding sources.

Grantees should also be able to justify expenses for necessary equipment and their use (e.g., uniforms/coveralls, handheld computers, gasoline, vehicle lease payments or use allowances). Grantees should maintain salary records (salaries, benefits, timesheets) of code enforcement inspectors being paid with CDBG funds and a description of all areas they are responsible for inspecting.

CDBG funds may be used to pay for salaries, related benefits and costs such as uniforms, equipment, and vehicle use allowances, only for staff responsible for conducting inspections in specific target areas or areas that meet the low- and moderate-income area benefit national objective. Furthermore, such costs should be supported by time distribution records (if costs are treated as direct charges) or an indirect cost allocation plan prepared in accordance with applicable Federal cost principles.

Basically CDBG Handbook, Chapter 12

IDIS Online also provides grantees with a mechanism to describe the projects and activities that used CDBG funds. The information captured by IDIS Online helps demonstrate to HUD that the activity was eligible and met a national objective. The system also collects accomplishment and performance measurement data and, therefore, plays an important role in the CPD Performance Measurement Initiative.

Grantees must enter data on the activity level in the following steps: setting up, funding, drawing, and completing/reporting accomplishment data. Consistency of reporting on IDIS Online activities is crucial, and policies and procedures must be incorporated into day-to-day program management.

Guide to National Objectives and Eligible Activities for Entitlement Communities

Chapter 2, Categories of Eligible Activities: Code enforcement involves the payment of salaries and overhead costs directly related to the enforcement of state and/or local codes.

Federal Financial Report Instructions to Standard Form 425

Reporting Requirements

- 1) The submission of interim FFRs [Federal financial reports] will be on a quarterly, semi-annual, or annual basis, as directed by the Federal agency.

City of Fresno's 2014 Policies and Procedures

Project Monitoring

Depending on the complexity of the specific project, CDBG Program staff will formally monitor departments and subrecipients one or more times during the program year.

Other Financial System Requirements

A City department and subrecipient's financial system must be set up to satisfy an auditor conducting a single unit or independent audit, whichever applies. During an audit, the auditor will examine records to ascertain if:

- Funds are properly budgeted and approved;
- Budget revisions have been documented and approved;
- Personnel charges are properly allocated to the block grant and based on payroll documents such as time and attendance records;
- All expenditures can be traced to source documents (i.e., purchase orders, invoices, canceled checks);
- Drawdowns have been timely;
- Only allowable funds have been claimed on the project;
- The City department and subrecipient accounting system reflects all assets, liabilities, etc.;
- In addition, the auditor will ascertain if the City department and subrecipient's program has been accomplished in the manner set out in the application and/or the contract with the grantee, the City.

3) CDBG Expenditures and Requests for Reimbursement – City Departments

Once the City Budget is adopted by Council, each fiscal year CDBG funds awarded to City departments are centrally loaded by the Finance Department into each Department's assigned "Org". An Org is the budget control number assigned to the functions and/or sections of a department.

Internal Controls

To maintain budget controls regarding comingling of funds, CDBG amounts are loaded into Department Orgs and are identified by a “Fund” number. City Departments have various non-CDBG funds to implement programs and activities. CDBG funds are allocated only to Fund 20501 across a standardized chart of accounts that meet general accounting principles.

Appendix D

Breakdown of Questioned Costs

Schedule of ineligible expenses

Job title	Expense description	Ineligible amount
	General fund payroll charged to code enforcement for fiscal years 2014 to 2016	
Senior community revitalization specialist	Recurring vehicle allowance - pay period ending May 17, 2015	\$8
Senior community revitalization specialist	Salaries and fringe - pay period ending May 17, 2015	305
Community revitalization technician	Salaries and fringe - pay period ending May 15, 2016	99
Senior community revitalization specialist	Salaries and fringe - pay period ending June 1, 2014	486
Community revitalization specialist	Salaries and fringe - pay period ending June 29, 2014	40
Senior community revitalization specialist	Salaries and fringe - pay period ending August 9, 2015	3,627
Subtotal		4,565
	Tire team salaries charged to code enforcement for fiscal years 2012 to 2014	
Community revitalization specialist	Salaries and fringe for fiscal years 2012 to 2014	22,967
Senior community revitalization specialist	Salaries and fringe for fiscal year 2012	47,537
Community revitalization specialist	Salaries and fringe for fiscal years 2012 to 2013	17,287
Temporary employee	Salaries and fringe for fiscal year 2013	3,279
Temporary employee	Salaries and fringe for fiscal years 2013 to 2014	15,933
Community revitalization specialist	Salaries and fringe for fiscal year 2013	(742)
Temporary laborer	Salaries and fringe for fiscal year 2014	8,660
Community revitalization specialist	Salaries and fringe for fiscal year 2014	24,150
Subtotal, tire team		139,071
Subtotal, code enforcement		143,636
	Graffiti salaries for fiscal year 2016	
Lead inspector	Staff hours allocated to non-CDBG-eligible area in fiscal year 2016	4,140

Inspector - graffiti abatement	Staff hours allocated to non-CDBG-eligible area in fiscal year 2016	5,383
Inspector - graffiti abatement	Staff hours allocated to non-CDBG-eligible area in fiscal year 2016	180
Inspector - graffiti abatement	Staff hours allocated to non-CDBG-eligible area in fiscal year 2016	409
Inspector - graffiti abatement	Staff hours allocated to non-CDBG-eligible area in fiscal year 2016	5,930
Inspector - graffiti abatement	Staff hours allocated to non-CDBG-eligible area in fiscal year 2016	3,877
Subtotal		19,919
Total		163,555

Schedule of unsupported expenses

Expense description	Unsupported amount
Code enforcement expenditures between fiscal years 2012 and 2017	
Unsupported code enforcement salaries between fiscal years 2012 and 2016	\$441,442
Unsupported management, administrative, and other salaries	357,821 ¹³
Unsupported adjustments between fiscal years 2012 and 2014	203,602
Unsupported vehicle maintenance, gas, and portable radio between fiscal years 2013 and 2014	109,877
Additional unsupported payroll between fiscal years 2012 and 2017	3,509,400 ¹⁴
Other unsupported amounts between fiscal years 2013 and 2017	1,907,359 ¹⁵
Subtotal	6,529,501
After school program drawn down in fiscal years 2015 and 2016	
Voucher number 5851177	628,316
Voucher number 5911128	417,057
Voucher number 5921094	61,626
Subtotal	1,107,000

¹³ The total unsupported management, administrative, and other salaries for fiscal years 2012 to 2014 was \$640,594; however, the amount was adjusted down to \$357,821 to avoid double counting funds that HUD had previously questioned in its HUD monitoring report (Background and Objective section).

¹⁴ This amount represents the payroll charged to CDBG, net of the payroll reviewed.

¹⁵ This amount represents other charges to CDBG, net of total drawn and the unsupported and questionable amounts.

Graffiti salaries for fiscal year 2016	
Lead inspector - staff hours allocated to other hours in fiscal year 2016	5,224
Inspector - graffiti abatement - staff hours allocated to downtime hours in fiscal year 2016	4,159
Inspector - graffiti abatement - staff hours allocated to downtime hours in fiscal year 2016	3,978
Inspector - graffiti abatement - staff hours allocated to downtime hours in fiscal year 2016	2,890
Inspector - graffiti abatement - staff hours allocated to downtime hours in fiscal year 2016	2,477
Inspector - graffiti abatement - staff hours allocated to downtime hours in fiscal year 2016	3,284
Community sanitation manager	25,267
Police lieutenant	15,020
Police lieutenant	7,371
Additional unsupported amount questioned	148,358
Subtotal	218,028
Fair Housing Council of Central California drawn down in fiscal years 2015 and 2016	
Fiscal year 2015, quarters 1 to 4	25,000
Fiscal year 2016, quarters 1 to 4	30,000
Subtotal	55,000
Total	7,909,529