



City of Miami Beach, Miami, FL

Community Development Block Grant Program



To: Ann D. Chavis, Director of Community Planning and Development, Miami Field Office, 4DD

From: //signed//
Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

Subject: The City of Miami Beach Did Not Always Properly Administer Its CDBG Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Miami Beach's administration of the Community Development Block Grant program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



Audit Report Number: 2016-AT-1007

Date: June 22, 2016

The City of Miami Beach Did Not Always Properly Administer Its CDBG Program

Highlights

What We Audited and Why

We audited the City of Miami Beach's Community Development Block Grant (CDBG) program in accordance with our annual audit plan because it had projects overseen by the same administration questioned in our audit of the City's HOME Investment Partnerships Program¹. In addition, the U.S. Department of Housing and Urban Development's Miami Office of Community Planning and Development ranked the City as high risk in its 2015 risk assessment. Our objective was to determine whether the City ensured that the drawdowns of CDBG funds were supported and allowable.

What We Found

The City did not always comply with CDBG requirements. Specifically, it did not ensure that drawdowns were properly supported and allowable for seven activities. This condition occurred because the City lacked due diligence when administering its CDBG activities. As a result, it charged \$336,150 in questioned costs to the CDBG program.

What We Recommend

We recommend that the City (1) provide supporting documentation or reimburse its program for \$227,587 in unsupported expenditures from non-Federal funds and (2) reimburse its line of credit for \$108,563 used for ineligible costs from non-Federal funds.

¹ HUD OIG issued audit report 2016-AT-1006 on June 17, 2016, for the City of Miami Beach's administration of the HOME Investment Partnerships Program.

Table of Contents

Background and Objective.....	3
Results of Audit	5
Finding: The City Did Not Ensure That It Charged Supported and Eligible Expenditures to the CDBG Program	5
Scope and Methodology.....	9
Internal Controls.....	11
Appendixes.....	12
A. Schedule of Questioned Costs	12
B. Auditee Comments and OIG’s Evaluation.....	13

Background and Objective

Authorized under Title I of the Housing and Community Development Act of 1974, Public Law 93-383, as amended, the Community Development Block Grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. The U.S. Department of Housing and Urban Development (HUD) awards annual grants to entitlement community recipients to develop viable communities by providing decent housing and a suitable living environment and by expanding economic opportunities principally for low- and moderate-income persons. An activity that receives CDBG funds must meet one of three national objectives:

- Benefit low- and moderate-income families,
- Aid in the prevention or elimination of slums or blight, or
- Meet community development needs having a particular urgency.

The City of Miami Beach was incorporated as a municipal corporation on March 26, 1915, and was created by the Florida Legislature, Chapter 7672, Laws of Florida (1917). The City is governed by an elected mayor and six commissioners and operates under a commission-manager form of government.

The City's Office of Housing and Community Services, formerly known as the Office of Real Estate, Housing, and Community Development,² is responsible for administering State and Federal programs, such as the HOME Investment Partnerships Program, CDBG, the State Housing Initiatives Program, and other special initiative programs targeted at income-eligible recipients and frequently relating to housing opportunities. Its mission is to develop and maintain a viable urban community by leveraging Federal funds with other funds to carry out housing and community development programs.

The City is an entitlement grantee that receives annual allocations of CDBG funds. In fiscal years 2010 through 2015, HUD allocated more than \$7 million in CDBG funds to the City.

Over the past 3 years, the City has been addressing shortcomings identified in its 2013 internal review of its projects and operations. This review began after the City dismissed its former office director in May 2013. The City's internal review found fiscal and operational discrepancies, particularly in its dealings with its former subrecipient, the Miami Beach Community Development Corporation. These issues included instances of noncompliance with Federal requirements, especially insufficient support for expenditures and inadequate monitoring of HUD-funded projects. During this review, some City and Corporation staff members were dismissed or resigned. The City had replaced its director and most of its staff and suspended the

² In 2013, shortly after the former department director was dismissed, the office was reorganized and named the Office of Housing and Community Services.

Corporation's HOME community housing development organization status. City staff indicated that the City had stopped all advance payments to this subrecipient and recaptured any remaining funds awarded. Further, the City said that it had improved its operations, which included revising its process directives, forms, and policies and procedures. Additionally, in an effort to safeguard the City's interest and stability of the tenants, the City had acquired four HUD-funded properties from the Corporation.

This audit was a spinoff of our review of the City's HOME audit, which found questionable costs associated with properties administered by the Corporation. Since the Corporation also received CDBG funding for some of the activities reviewed under the HOME audit, we reviewed these same activities. The objective of this audit was to determine whether the City administered its CDBG program in accordance with applicable Federal requirements. Specifically, we wanted to determine whether the City ensured that drawdowns of CDBG funds used for four properties also funded with HOME funds were in accordance with applicable Federal requirements and were allowable and supported.

Results of Audit

Finding: The City Did Not Ensure That It Charged Supported and Eligible Expenditures to the CDBG Program

The City did not ensure that it charged supported and eligible expenditures to the CDBG program. This condition occurred because the City lacked due care when administering its CDBG activities. As a result, it charged \$336,150 in questionable costs to the CDBG program.

Questionable Costs

The City did not ensure that expenditures for seven activities were adequately supported and eligible. Regulations at 24 CFR (Code of Federal Regulations) 85.20 require that accounting records be supported by source documentation, such as canceled checks, paid bills, payrolls, time and attendance records, contracts, etc.

The City charged questionable project costs of \$336,150 for seven activities reviewed. See the table below.

Voucher number	IDIS* activity #	Activity name	Costs with inadequate documentation	Unallowable costs	Total questioned costs
5120349	766	The Corporation's Allen House Apartments Rehabilitation	\$100,698		\$100,698
5554632	892	The Corporation's Rehabilitation of the London House Apartments		\$ 8,500	\$ 8,500
5460676	871	The Corporation's Rehabilitation of the Barclay Apartments		\$19,248	\$ 19,248
5560044		The Corporation's Rehabilitation of the Barclay Apartments		\$ 5,505	\$ 5,505
5780517	932	City of Miami Beach Barclay Apartments Acquisition		\$75,310	\$ 75,310
5517524	885	The Corporation's Multifamily Housing	\$ 24,393		\$ 24,393
5509695		The Corporation's Multifamily Housing	\$ 18,832		\$ 18,832
5382277		The Corporation's	\$ 23,503		\$ 23,503

	857	Multifamily Housing			
5459775		The Corporation's Multifamily Housing	\$ 20,653		\$ 20,653
5334722	815	The Corporation's Multifamily Housing	\$ 20,865		\$ 20,865
5262221		The Corporation's Multifamily Housing	\$ 18,643		\$ 18,643
		Total	\$227,587	\$108,563	\$336,150

* IDIS = Integrated Disbursement and Information System is a HUD system that allows grantees to request grant funding from HUD and reports on what is accomplished with these funds.

Activity 766 – Voucher 5120349 for the Corporation's Allen House Apartments Rehabilitation

The City provided \$159,684 in CDBG funds to the Corporation to renovate the façade of the Allen House Apartments. For this activity, the City did not provide sufficient documents to support expenditures of \$100,698. It provided a payment request letter and forms. However, it did not provide the invoices and canceled checks from the Corporation to the vendors to validate the expenditures as required by 24 CFR 85.20. As a result, \$100,698 was unsupported.

Activity 892 – Voucher 5554632 for the Corporation's Rehabilitation of the London House Apartments

The City provided CDBG funds to the Corporation to rehabilitate the London House Apartments. For this activity, the City paid for underwriting fees that were not included in the subrecipient written agreement. Regulations at 24 CFR 570.503 require that grantees have written agreements in effect with each subrecipient before giving out any CDBG funds. The regulations require that the written agreements describe the work to be performed, a schedule for completion of the work, and a budget. The budget in the agreement specified that the CDBG funds would pay for construction, architectural, and engineering fees but did not include underwriting fees. Therefore, \$8,500 in underwriting fees was unallowable.

Activities 871 and 932 – Acquisition and Rehabilitation of the Barclay Apartments

The City used \$100,063 in CDBG funds for the acquisition and rehabilitation of the Barclay Apartments (vouchers 5460676, 5560044, and 5780517). Our review of \$94,558 for activities 871 and 932 showed costs totaling \$19,248 that did not have adequate documentation to support the expenditures.

In addition, the City stated that for these activities, it did not plan to meet the national objective of benefitting low- and moderate-income households at 24 CFR 570.208(a)(3) and would, therefore, need to repay HUD all CDBG funds spent for these activities. This condition occurred because the City stated that it did not have the financial capacity to complete the rehabilitation and maintain it as affordable housing. In January 2015, the City obtained title to the Barclay Apartments from its former subrecipient because it was at risk of loss as a result of the subrecipient's organizational problems. Therefore, the City planned to release a request for proposals for a private developer with the experience and resources to rehabilitate and operate the building. The building would be developed as workforce housing for residents earning 120

to 140 percent of area median income, which is over CDBG's income limit, and employed in the public safety, education, and municipal sectors.

Given its current status, these activities should be immediately canceled because the City (1) stated that it did not have the financial capacity to complete the project and (2) did not plan to meet the CDBG low- and moderate-income national objective. HUD had no assurance that the Barclay Apartments project would fully meet the program objectives and provide the intended benefits. As a result, all CDBG funds drawn down for this project (\$100,063 for activities 871 and 932) should be returned to its line of credit and made available for other eligible CDBG activities.

The Corporation's Multifamily Housing Activities (815, 857, and 885)

The City awarded the Corporation funds to cover the delivery costs for the rehabilitation administration of six rental buildings. It did not have adequate documentation to support \$126,889 in delivery costs for activities 815, 857, and 885. The City provided expense reports for the administration and operations of the Corporation. However, it did not provide invoices, timesheets, or canceled checks in accordance with 24 CFR 85.20 to support these reports. In addition, the City was not able to relate these costs to the rehabilitation activities being carried out. Activity delivery costs are allowable if the costs are incurred for implementing and carrying out eligible CDBG activities authorized under 24 CFR 570.201-570.204. Therefore, the \$126,889 drawn down was not supported. According to HUD's Integrated Disbursement and Information System and the subrecipient agreements, the costs for these activities included delivery costs for the Barclay Apartments. As indicated in the section above, the Barclay Apartments project would not meet the national objective; therefore, the delivery costs would be unallowable. Regulations at 24 CFR 570.200(a)(2) indicates that activity delivery cost is allocable to an activity if it also meets a national objective. The City should identify the portion of the \$126,889 that is for the Barclay Apartments project and consider that amount unallowable.

Reasons for Deficiencies

The conditions described above occurred because the City lacked due diligence when administering its CDBG activities. The City did not know the reason for the deficiencies because they generally occurred during the previous administration. Since discovering operational and financial deficiencies in 2013, caused by the prior administration and former subrecipient, the City had taken steps to improve its operations, such as

- Dismissing its former department director and reorganizing the department;
- Revising its controls and processes, such as requiring specific documents to support its reimbursements and improving its record retention policies; and
- Hiring more staff members to oversee the program.

Since the review was limited to the projects that were related to the former subrecipient, we encourage HUD to confirm that the City has implemented its revised policies and procedures throughout its CDBG program.

Conclusion

The City did not ensure that it charged supported and eligible expenditures to the CDBG program. This condition occurred because the City lacked due diligence when administering its CDBG activities. As a result, it charged \$336,150 in questioned costs to the CDBG program.

Recommendations

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

- 1A. Provide supporting documentation or reimburse its program for \$227,587 in unsupported expenditures from non-Federal funds.
- 1B. Reimburse its line of credit for \$108,563 in ineligible costs from non-Federal funds.

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

- 1C. Confirm that the City has implemented its revised written policies and procedures throughout its CDBG program.

Scope and Methodology

We performed our review from January through April 2016 at the City's Office of Housing and Community Services located at 555 17th Street, Miami Beach, FL, and other sites as necessary. Our review covered the period January 1, 2010, through November 30, 2015, and was expanded as needed to achieve our objective.

To accomplish our objective, we

- Reviewed applicable laws and regulations;
- Reviewed applicable City policies and procedures;
- Reviewed monitoring, independent public accountant, and IDIS reports;
- Reviewed the City's financial records, program activity files, and other supporting documentation; and
- Interviewed HUD and City staff.

Our review of the City's HOME program found that the City charged questionable costs. Most of these issues involved the Miami Beach Community Development Corporation. Since the Corporation also received CDBG funding for some of the activities reviewed under the HOME audit, we reviewed these same activities. These activities involved the rehabilitation or acquisition of the Allen House Apartments, Barclay Apartments, London House Apartments, and Neptune Apartments.

According to IDIS, the City drew down approximately \$1 million in CDBG funds related to the four properties reviewed during our scope period of January 1, 2010, through November 30, 2015. Based on high dollar amount and most current drawdowns, we selected six transactions with expenditures of \$817,768, or 81.18 percent of CDBG funds drawn for the four properties.

Current staff had concerns with three activities related to delivery costs involving the Corporation. Specifically, the City was concerned with the purpose and outcome of these activities. As a result, we expanded our review and selected six additional transactions with expenditures of \$126,889. Overall, we reviewed 12 transactions with expenditures of \$944,657.

We did not perform a 100 percent selection. The results of this audit apply only to the items reviewed and cannot be projected to the universe of activities.

Computer-processed data generated by the City were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of these computer-processed data.

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:

- Controls over program operations to reasonably ensure that the program meets its objective(s),
- Controls over relevance and reliability of operational and financial information, and
- Controls over compliance with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

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

- The City did not ensure that it charged supported and eligible expenditures to the CDBG program (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$227,587
1B	\$108,563	
Totals	\$108,563	\$227,587

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3

MIAMI BEACH
City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov
OFFICE OF HOUSING & COMMUNITY SERVICES
555 17 St., Miami Beach, FL 33139, Tel: (305)673-7260 Fax: (305)673-7772

May 19, 2016

Ms. Nikita N. Irons
Regional Inspector General for Audit
U.S. Dept. of Housing and Urban Development
Office of Inspector General
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

RE: Draft Report Audit Letter Dated April 29, 2016

Dear Ms. Irons:

We are in receipt of your Draft Report Audit Letter. Below, please find our comments to your findings.

OIG Finding: The City did not ensure that it charged supported and eligible costs to the CDBG Program:

Activity #765:
The City concurs with OIG that certain expenditures totaling \$100,698 represent funds provided to its former CHDO to renovate the façade of the Allen House Apartments. These expenditures were not supported by sufficient documentation.

The City is currently unable to provide any additional documentation to supplement the documentation presented at the time of the audit. However, the City is working with MBCDC to acquire documentation from Miami Beach Community Contractors (MBCC), a spinoff company from MBCDC, which acted as the contractor on the project and can possibly confirm the completion of work in support of the expenditures.

Activity #892:
The City concurs with OIG that certain expenditures totaling \$8,500 represent funds provided to its former CHDO. These expenditures were unallowable costs as they were not part of the scope of work.

The City is unable to provide any additional documentation to supplement the documentation presented at the time of the audit that justifies charging underwriting fees to the project.

Activities #871 and 932:
The City concurs with OIG that certain expenditures totaling \$100,063 represent funds provided for the acquisition and rehabilitation of the Barclay Apartments. These expenditures were unallowable as the building will not meet the national objective of benefiting low-to moderate-income individuals.

On May 6, 2015 the City Commission approved Resolution No. 2015-29017 to issue a Request for Proposals to identify a Public-Private Partnership in order to develop the Barclay Plaza Apartments as Workforce Housing serving persons earning between 120 to 140 percent of the

We are committed to providing excellent public service and safety to all who live, work, and play in our vibrant, tropical, historic community.

Comment 4

area median income and employed in the public safety, education and municipal sectors. On May 11, 2016, the City Commission approved the release of RFQ 2016-097-KB seeking a Public – Private Partnership (P3) Consultant to advise the City on its Workforce Housing Initiative including the development of the Barclay Plaza. Once the P3 consultant has been selected, the City intends to move forward with the release of a Request for Proposals for a Public Private Partnership to rehabilitate and operate the building.

Activities #B15, 857 and 885:

The City concurs with OIG that certain expenditures totaling \$126,889 represent funds provided to the City's former CHDO to cover delivery costs for the rehabilitation administration of six rental buildings that are not supported by required source documentation.

The City is unable to provide any additional documentation to supplement the documentation presented at the time of the audit. In the Audit Letter, the City was requested to identify the portion of the \$126,889 related to the Barclay Apartments project and consider that amount as unallowable. Only Activity 885 has expenditures related to the Barclay, unfortunately we have not been able to determine this amount as the reimbursement packages didn't assign the cost per building.

OIG RECOMMENDATIONS:

Recommendation: The City is required to provide supporting documentation or reimburse its program for \$227,587 in unsupported expenditures related to activities 766, 885, 857 and 815 from non-Federal funds.

City Response: The City is unable to provide additional documentation to supplement the documentation presented at the time of the audit, and therefore acknowledges that it must repay the funds to HUD. The City would request that the reimbursement to HUD for these activities come from its future CDBG Program allocations over the span of three (3) fiscal years.

Recommendation: The City is required to reimburse HUD for \$108,563 in ineligible costs related to activities 892, 871 and 932 from non-Federal funds.

City Response: The City would request that the reimbursement to HUD for these activities come from its future CDBG Program allocations over a span of three (3) fiscal years.

We are grateful for your efforts throughout the audit process and the professionalism of your team. We assure you that the City will continue to take the necessary steps to ensure that our program operates in a manner that is fully compliant with all HUD regulations and requirements.

Thank you for the opportunity to review your audit draft. If you have any questions, please contact me at (305) 673-6491, or at maria.ruiz@miamibeachfl.gov.

Sincerely,



Maria L. Ruiz,
Department Director

c: Jimmy L. Morales, City Manager
Kathie G. Brooks, Assistant City Manager

We are committed to providing excellent public service and safety to all who live, work, and play in our vibrant, tropical, historic community.

Comment 5

Comment 5

OIG Evaluation of Auditee Comments

Comment 1 The City agreed that it did not have sufficient documentation to support expenditures of \$100,698 for activity 766. The City is working with its subrecipient to acquire documentation to possibly confirm the completion of work in support of the expenditures.

We acknowledge the City's effort to obtain documentation to confirm the completion of work. However, the City also needs documentation to support the expenditures in order to ensure that the program was not overcharged and costs were allowable and reasonable in accordance with 24 CFR 85.20. The City should provide HUD with any additional documentation or provide proof of repayment during the audit resolution.

Comment 2 The City concurred with OIG that expenditures of \$8,500 were not part of the scope of work for activity 892; therefore, these costs were unallowable. In addition, the City stated that it was not able to provide supplemental documentation that justified the underwriting fees charged to the project.

We acknowledge the City's agreement with our finding. Therefore, the City must provide HUD with proof that it reimbursed its line-of-credit from non-Federal funds for the unallowable costs during the audit resolution.

Comment 3 The City agreed that expenditures totaling \$100,063 are unallowable because the project will not meet the national objective of benefitting low-to moderate-income individuals. The City plans to develop the Barclay Plaza as Workforce Housing that would serve persons earning between 120 to 140 percent of the area median income, which is over CDBG's income limit.

We acknowledge the City's agreement with our finding. As a result of this project not meeting the required national objective, the City must provide proof to HUD that it reimbursed its program from non-Federal funds, all funds expended for this project, including the \$100,063 for activities 871 and 932.

Comment 4 The City agreed that it was not able to provide adequate documentation to support delivery costs of \$126,889 for activities 815, 857, and 885. In addition, the City stated that only activity 885 had expenditures related to the Barclay Apartments project. However, it was difficult to identify the portion of the \$126,889 related to this project since the reimbursement packages did not assign costs per building.

We acknowledge the City's agreement with our finding. Thus, the City must provide HUD with proof that it reimbursed its program \$126,889 for unsupported costs from non-Federal funds during the audit resolution.

Comment 5 The City agreed with the questioned costs and requested that reimbursement to HUD for unsupported costs of \$227,587 and ineligible costs of \$108,563 come from the City's future CDBG program allocations over a span of three fiscal years.

We recognize the City's willingness to repay \$227,857 in unsupported costs and \$108,563 in ineligible costs through a future grant reduction; however, HUD will work with the City to determine whether this option is viable.