Issue Date
September 29, 2010
Audit Report Number
2010-AT-1015

TO: Maria R. Ortiz, Director of Community Planning and Development, Miami Field Office, 4DD

//signed//

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

SUBJECT: The City of Deerfield Beach, FL, Did Not Properly Administer Its Community Development Block Grant Program

HIGHLIGHTS

What We Audited and Why

We audited the Community Development Block Grant program (program) administered by the City of Deerfield Beach, FL (City). The objective of the audit was to determine whether the City administered its program in accordance with applicable U.S. Department of Housing and Urban Development (HUD) requirements. We selected the City for review because it had come under increased scrutiny when various newspaper articles and reviews highlighted City problems. In addition, HUD's 2010 risk assessment indicated that the City had demonstrated a record of poor performance with the program.

What We Found

The City did not administer its program in accordance with applicable HUD requirements. It did not request exception to HUD's conflict-of-interest provision before the awarding of funds. This condition occurred because the City lacked effective management controls to ensure compliance with HUD's conflict-of-interest regulation. As a result, HUD had no assurance that the City did not practice favoritism in the awarding of funds and may have placed HUD's funds at risk.

The City did not maintain adequate supporting documentation to demonstrate that it properly allocated salaries to the program. This condition occurred because the City did not have effective controls in place to ensure that salary allocations were properly documented. Without supporting documentation to substantiate the allocation of actual services performed by personnel, there was no assurance that the salary expenditures were accurate and program related.

The City did not comply with HUD requirements in meeting the national objective for its housing activities. It did not maintain adequate supporting documentation to demonstrate that the individuals served were low- and moderate-income persons. This condition occurred because the City lacked effective management controls and disregarded HUD requirements. As a result, there was no assurance that expended program funds achieved the intended national objective.

What We Recommend

We recommend that the Director of the Miami Office of Community Planning and Development require the City to (1) reimburse $224,742 in HUD funds from non-Federal funds for ineligible costs, (2) provide supporting documentation or reimburse its program $142,248 from non-Federal funds for unsupported salary expenditures, and (3) provide supporting documentation or reimburse its program $28,298 from non-Federal funds for an activity in which the national objective was unsupported.

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

Auditee's Response

We discussed the findings with the City during the audit. We provided the draft report to officials on August 27, 2010, for their comments and discussed the report with the City at the exit conference on September 9, 2010. The City provided its written comments to our draft report on September 16, 2010. In its response, the City disagreed with finding 1. However, it generally agreed with findings 2 and 3. In addition, the City provided recently obtained documentation to show that it met the national objective for two of the three activities discussed in finding 3.

The complete text of City's response, along with our evaluation of that response, can be found in appendix B of this report. Attachments to the City's comments were not included in the report, but are available for review upon request.

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BACKGROUND AND OBJECTIVE

The City of Deerfield Beach, FL (City) receives annual Community Development Block Grant program (program) funds from the U.S. Department of Housing and Urban Development (HUD). HUD awards annual grants to entitlement community recipients to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services, principally for low- and moderate-income persons. An activity that receives program 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 because existing conditions pose a serious and immediate threat to the health or welfare of the community and when other financial resources are not available.

Organized under the City's Planning and Growth Management Department, the Community Development Division (Division) is responsible for all phases of the grants process, including the preparation of State and Federal grants. The Division administers the program, which is designed to assist low-income citizens in a variety of programs; for example, housing rehabilitation, first-time home-buyer assistance programs, economic development activities, and youth and family counseling.

In addition, the City participated in the Broward County HOME Consortium, which awarded the City $215,975 in HOME Investment Partnerships Program (HOME) funds. The City awarded these funds to its community housing development organization (CHDO) to construct and sell a new home for a low- or moderate- income first-time home buyer.

For program years 2008 and 2009, HUD allocated approximately $1.4 million in program funds to the City, and the City disbursed $724,459 during program year 2008. As of May 13, 2010, the City had disbursed $24,855 in 2009 program funds for one activity.

The City was reviewed because it had come under increased scrutiny when various newspaper articles and City reviews highlighted City problems. One review indicated that the City had problems with the administration of its program. In general, it identified mismanagement of funds based on the City's careless record keeping, unaccounted for funds, conflicts of interest, and several incidents of possible fraud.

In addition, HUD's 2010 risk assessment indicated that the City had demonstrated a record of poor performance with the program. Based on HUD's 2008 monitoring report, HUD found problems with client eligibility, record keeping, conflict of interest, procurement, and financial records.

On August 3, 2010, the City proposed to the City Commission that the Division be reorganized and transferred to the Senior Services Department. In addition, it proposed the elimination of the positions of the two Division coordinators, who were on administrative leave during our audit.

Our audit objective was to determine whether the City administered its program in accordance with applicable HUD requirements. Specifically, we reviewed whether (1) the City's program met the national objective(s) and (2) program expenditures were allowable.

RESULTS OF AUDIT

Finding 1: The City Did Not Seek Exception to HUD's Conflict-of-Interest Provision

The City did not seek exception to HUD's conflict-of-interest provision before the awarding of funds. It awarded HUD funds to two organizations that were related to City officials. This condition occurred because the City lacked effective management controls to ensure compliance with HUD's conflict-of-interest regulations. As a result, HUD had no assurance that the City did not practice favoritism in the awarding of funds and may have placed HUD's funds at risk. Therefore, $42,211 in program and $182,531 in HOME funds were ineligible, and $33,444 in undisbursed HOME funds should be put to better use.

Conflict of Interest Involving Two City Officials

The City did not request HUD's exception to the conflict-of-interest provision before awarding Federal funds to two organizations that were associated with City officials. The HUD conflict-of-interest regulations at 24 CFR (Code of Federal Regulations) 570.611 and 92.356 are intended to protect the reputation of the program and HOME from even the appearance of providing special treatment or serving a special interest. These regulations prohibit elected or appointed officials and family members from obtaining a financial interest or benefit from a HUD assisted activity during their tenure or for 1 year thereafter. However, upon written request of the recipient, HUD may grant an exception to the conflict-of-interest provisions.

The City awarded funds to the Haitian American Consortium and Westside Deerfield Businessmen Association, organizations that were related to City officials. These relationships violated conflict-of-interest regulations, which required a disclosure to HUD.

Haitian American Consortium

This subrecipient received $12,207 in program and $30,004 in Community Development Block Grant Recovery program funds. These activities provided public services to benefit low- and moderate-income persons. The conflict-of-interest concerns involved two City officials.

One City official voted to approve both of these awards. This official may have had an interest in the subrecipient because it used the official's dry-cleaning

business address as its location in corporate filings and in a bank account. According to the City, it did not know why this information was not disclosed to HUD.

The other official voted to award program funds to the subrecipient. This official voted to fund an activity in which the official was also designated as project director. The official prepared the subrecipient grant application for the award. According to City board minutes,[1] the official declared that the subrecipient had not employed the official and had not paid the official for preparing the grant application. The official indicated that there was no plan to work for the subrecipient. However, a cursory review disclosed evidence that contradicted the City official's statement. For example, checks and a general ledger printout indicated that the subrecipient paid the City official. Although the official claimed to have no intention of working with the subrecipient, the grant application contained the official's resume and listed the official as project director for the activity that received program funds. Further, corporate filing reports indicated that this City official had been the subrecipient's secretary since its date of incorporation in 2007 through 2010.

Westside Deerfield Businessmen Association

This CHDO was awarded $215,975 in HOME funds[2] to sell and construct one single-family home in Deerfield Beach, FL. As of July 2010, $33,444 of the $215,975 had not been drawn down. The single-family home was sold to a low- to moderate-income individual who also received $40,000 in program home-buyer assistance to purchase the home.

At the time of the HOME award, there was a City official who was related to this organization. The City official's daughter was the president of the CHDO. Also, the executive director of the CHDO was the cousin of the official's former spouse. The City official abstained from voting on the basis that there was a relationship with the executive director. However, the City was required to disclose these relationships to HUD. The City did not know why this information was not disclosed.

These conditions occurred because the City lacked effective management controls. In both cases, the City was unable to explain why these relationships were not disclosed to HUD. Due to the nature of these relationships, the City was required to request HUD's exception to the conflict-of-interest provision. As a result of the City's failure to do so, HUD had no assurance that the City did not practice favoritism in the awarding of program funds.

[1] City of Deerfield Beach Regular City Commission Meeting Minutes, dated March 3, 2009
[2] The City received these HOME funds from Broward County, and then it awarded the funds to the Westside Deerfield Businessmen Association.

Conclusion

The City did not seek exception to HUD's conflict-of-interest provision before the awarding of funds. It awarded HUD funds to two organizations that were related to City officials. This condition occurred because the City lacked effective management controls to ensure compliance with HUD's conflict-of-interest regulations. As a result, HUD had no assurance that the City did not practice favoritism in the awarding of funds and may have placed HUD's funds at risk. Therefore, $42,211 in program funds and $182,531 in HOME funds were ineligible, and $33,444 in undisbursed HOME funds should be put to better use.

Recommendations

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

1A. Reimburse $42,211 in program and $182,531 in HOME funds for ineligible costs from non-Federal funds.

1B. Develop and implement written procedures to ensure compliance with HUD's conflict-of-interest regulations at 24 CFR 570.611 and 92.356.

In addition, we recommend that the Director of the Miami Office of Community Planning and Development require Broward County to

1C. Reprogram $33,444 in HOME funds awarded to Westside Deerfield Businessmen Association.

Finding 2: The City Did Not Adequately Support Salary Expenditures Allocated to the Program

The City did not maintain adequate supporting documentation to demonstrate that it properly allocated salaries to the program. This condition occurred because the City did not have effective controls in place to ensure that salary allocations were properly documented. Without supporting documentation to substantiate that the salary allocations related to actual services performed by personnel, there was no assurance that the salary expenditures were accurate and program related. Therefore, the $142,248 allocated to the program for salaries is unsupported.

Unsupported Salary Allocation

The City did not maintain adequate supporting documentation to demonstrate that it properly allocated salaries to the program. Regulations at 2 CFR Part 225, appendix B, section 8h(4), require that when employees work on multiple activities, a distribution of their salaries or wages be supported by personnel activity reports or equivalent documentation.

HUD reimbursed the City $142,248 in program funds for 2008 salary expenditures. These expenditures accounted for 96 percent of the total Planning and Administration Program funds awarded. In some instances, the City allocated up to 95 percent of an employee's salary to the program. The following table shows the City's allocation.

Employee	**Salary expenditure allocated to program funds**	
	Percentage	Amount allocated
1	85	$ 52,279
2	95	$ 51,427
3	85	$ 34,124
4	10	$ 4,418
		$ 142,248*
*Salary expenditures include other employee benefits.		

The City estimated the salary allocation for each employee based on work distribution. However, it did not have records to substantiate the allocation used to charge program funds. There were no records of the actual time spent by employees between Federal and non-Federal funds. Regulations at 2 CFR Part 225, appendix B, section 8h(5)(e), state that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes.

The condition described above occurred because the City did not maintain effective management controls to ensure that salary allocations were properly documented. Specifically, the City did not have written procedures for salary allocation among program and other Federal and non-Federal programs. In addition, it did not require its employees to maintain documentation supporting the time worked on each Federal or non-Federal program. The City believed that the methodology it used to allocate salary expenditures was adequate.

Without supporting documentation to substantiate salary allocations in relation to actual services performed by personnel or some type of quantifiable measure of employee effort, there was no assurance that salary expenditures were accurate and program related. As a result, the City allocated $142,248 in unsupported salaries to the program.

Recommendations

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

2A. Provide supporting documentation or reimburse its program $142,248 for unsupported salary expenditures from non-Federal funds.

2B. Develop a salary allocation method that complies with 2 CFR Part 225.

2C. Develop, implement, and enforce written procedures for salary allocation among Federal and non-Federal programs to include documentation requirements for its employees.

Finding 3: The City Did Not Demonstrate Compliance in Meeting the National Objective for Its Housing Activities

The City did not demonstrate compliance with HUD requirements in meeting the national objective for its housing activities. It did not maintain adequate supporting documentation to demonstrate that the individuals served were low- and moderate-income persons. This condition occurred because the City lacked effective management controls and disregarded HUD requirements. As a result, there was no assurance that $28,298 in expended program funds achieved the intended national objective.

Inadequate Supporting Documentation

The City did not maintain adequate supporting documentation to demonstrate that the national objective was met for two housing activities. Regulations at 24 CFR 570.506(b) state that records must be maintained to demonstrate that each activity undertaken meets one of the national objective criteria set forth in 570 CFR Part 208.

We reviewed the first-time home-buyer assistance (HUD's Integrated Disbursement and Information System (IDIS) activity 121) and homeowner rehabilitation (IDIS activity 122) activities. These activities provided housing assistance to low- and moderate-income individuals who met eligibility criteria based on the size and income of the household.[3]

Three of the six files reviewed contained missing or inconsistent information that the City did not consider in determining the recipient's eligibility. Regulations at 24 CFR 570.506(b)(4)(iii) and (vii) and 570.208(a)(3) require records demonstrating that an activity that provides or improves permanent residential structures is occupied by low- and moderate-income households.

Home-Buyer Assistance – IDIS Activity 121

Client #0125 – This file contained conflicting information on the size of the recipient's household. On the application, the recipient claimed a household size of four, while the lease agreement indicated five. There was no evidence in the file that the City addressed this inconsistency.

In addition, the file did not indicate whether the recipient's 18-year-old child held a job. The Section 8 housing assistance payment program definition of annual income indicates that although a full-time student is technically considered a

[3] The City used the Section 8 housing assistance payment program definition of annual income to determine eligibility.

dependent, a small amount of income may be counted toward calculating annual income. An affidavit or disclosure should have been obtained to clarify these issues. Therefore, the eligibility requirement was not adequately supported as having been met, and $25,000 in program funds was unsupported.

We issued the draft report to City officials on August 27, 2010. In response to the draft report, the City provided additional documentation on September 16, 2010. The City provided an affidavit and supporting documentation to show that the client's household size was four. OIG and HUD reviewed and accepted the additional information provided. As a result, the eligibility requirement is now satisfied and $25,000 in unsupported costs for this activity is now supported. We reduced the questioned costs totals for this finding.

Homeowner Rehabilitation - IDIS Activity 122

Client # 0092 – The household size reported in the application was questionable. The file indicated that the coapplicant had a child whose father was not included in the application. The coapplicant may have been married, because some documents referred to the coapplicant by her married name. In addition, there was no evidence in the file indicating that the coapplicant was divorced. Clarification of the marital status is important in determining whether there is additional income that should have been considered. As a result of the coapplicant's undocumented marital status, $33,060[4] in program funds was unsupported.

The City provided additional documentation for this finding on September 16, 2010. The City provided the client's ex-husband's death certificate, which supported the client's household size. OIG and HUD reviewed and accepted the additional documentation provided. As a result, the eligibility requirement is now satisfied and $33,060 in unsupported costs is now supported. We reduced the questioned costs totals for this finding.

Client # 0106 – The file contained inconsistent information on the size of the recipient's household. The application indicated a household size of one, while a court record revealed that another person may have been living with the recipient.

A property search was conducted, and the recipient's application indicated that the recipient owned another property at the time of application. The City did not include this property when it calculated the recipient's annual income. According to the definition of annual income in the Section 8 housing assistance payment program, the annual income includes equity in real property. The City stated that this oversight may have occurred because the program coordinator did not perform the property search as required by the City's policies and procedures. As a result, $28,298 in program funds was unsupported.

[4] The City disbursed $33,060 in program funds to rehabilitate the client's home. City staff explained that $3,280 of the $33,060 came from the 2009 program funds and $29,780 from the 2008 program funds.

These conditions occurred because the City lacked effective management controls over its housing program activities and disregarded HUD requirements. Specifically, the City did not follow its own policies and procedures to ensure effective performance and compliance with Federal regulations for meeting national objectives. The City agreed with our findings and was not surprised by the issues encountered. For this reason, the City was working on strengthening and enforcing its policies and procedures.

Conclusion

The City did not demonstrate compliance with HUD requirements for meeting the intended national objective for two program activities. Three of the six files reviewed contained missing or inconsistent information that the City did not consider in determining the recipient's eligibility. This condition occurred because the City lacked effective management controls and disregarded HUD requirements. On September 16, 2010 the City provided additional documentation to show that two clients serviced met the national objective. However, the remaining activity is still unsupported. As a result, there was no assurance that $28,298 in program funds benefitted the intended persons as required by HUD.

Recommendations

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

3A. Provide supporting documentation or reimburse its program line of credit $28,298 from non-Federal funds for one activity that was not supported as meeting the national objective according to 24 CFR 570.506 and 570.208.

3B. Revise and implement its policies and procedures to ensure that its housing program activities comply with Federal regulations for meeting program national objectives.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether the City administered its program in accordance with applicable HUD requirements. Specifically, we reviewed whether (1) the City's program met the national objective(s) and (2) program expenditures were allowable. To accomplish the audit objective, we

- Reviewed relevant HUD regulations,
- Reviewed relevant City policies and procedures,
- Interviewed HUD and City officials,
- Reviewed reports issued on the City's Community Development Division,
- Reviewed City financial records related to the program expenditures,
- Reviewed reports from IDIS, and
- Reviewed City recipient files and records.

In program year 2008, HUD awarded the City $738,902 in program funds. We selected two activities and the planning and administration activity for review because of the large expenditure amounts. These activities totaled approximately $523,473 and represented 71 percent of the total program funds awarded in program year 2008. We did not review program year 2009 because as of May 2010, it had minimal disbursements of $24,855 for one activity.

For the two selected activities, the City provided us a list of expenditures by recipients. Due to the volume of recipients for each activity, we did not perform a 100 percent review. Instead, based on the total expenditures, we selected the three largest or most recent dollar recipients from each activity totaling approximately $152,943 of the total $378,048 disbursed or 40 percent. For the planning and administration activity, we selected salary expenditures which represented approximately $142,248 of the total $147,425 disbursed or 96 percent. The results of this audit apply only to the items reviewed and cannot be projected to the universe of activities.

Two of the six recipients reviewed received a service or property from organizations that had been under media scrutiny for their alleged relationships with City officials. One of these recipients also received $215,975 in HOME funds. The City received these HOME funds from Broward County, and then it awarded the funds to the recipient. Since the City awarded HUD funds to these organizations, we reviewed whether the City awarded these funds in accordance with HUD's conflict-of-interest regulations.

Finally, we assessed the reliability of computer-processed data reported in IDIS. To assess the reliability of expenditure amounts reported in IDIS, we (1) interviewed City officials about the

data, (2) reviewed existing documentation related to the data source, and (3) traced data to the City's financial system for accuracy and completeness. The City was unable to provide documentation to support that it properly allocated salaries to the program. This condition occurred because the City did not have effective controls in place to properly allocate salary expenses to the program. Without supporting documentation to substantiate the salary allocations as they related to actual services performed by personnel, the City may have inaccurately charged salaries to the program.

Considering the results of the review, the expenditure amounts reported in IDIS were reliable. However, the administration costs reported in IDIS were unreliable. Since IDIS was supported by the City's financial system, we used the program expenditures reported in the City's financial system and IDIS for purposes of determining questioned costs.

Our review generally covered the period of October 2008 through April 2010 and was extended as necessary during the audit. Our review was conducted from May through August 2010 at City Hall located at 150 NE Second Avenue, Deerfield Beach, FL.

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. 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;
- Controls over the reliability of data;
- Controls over compliance with laws and regulations; and
- Controls over the safeguarding of resources against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- The City did not seek exception to HUD's conflict-of-interest provision (see finding 1).

- The City did not adequately support salary expenditures allocated to the program (see finding 2).

- The City did not demonstrate compliance in meeting the national objective for its housing activities (see finding 3).

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	$224,742		
1C			$33,444
2A		$142,248	
3A		28,298	
Total	$224,742	$170,546	$33,444

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.

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, these funds could be put to better use because HOME funds have not been drawn down.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

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City of DEERFIELD BEACH

September 15, 2010

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

Dear Mr. McKay:

Enclosed please find the City's response to the draft audit finding that was provided to us August 27, 2010.

Finding 1: The City did not seek an exception to HUD's Conflict of Interest Provision

The draft report refers to conflicts of interest involving two city officials. Prominently, City Commissioner is one of those. The alleged conflicts relate to the fact that was an officer of the Westside Deerfield Businessmen's Association, the CHDO of the City of Deerfield Beach. The second involving Commissioner was the fact that her daughter, , was the President of the Westside Deerfield Businessmen's Association.

24 C.F.R. 570.611 contains the applicable provisions with regard to conflicts of interest. The position of the draft report is that the City was required to avoid such conflict of interest or seek an exception pursuant to 24 C.F.R. 570.611. Sub-Section B of 24 C.F.R. 570.611 contains the threshold requirement which would trigger the requirement to obtain a waiver. That Section states:

> "The general rule is that no person subscribed in Paragraph C of this Section who exercise or have exercised any functions or responsibilities with regard to CDBG activities assisted under this part, or who are in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a financial interest or benefit from a CDBG assisted activity, or have a financial interest in any contract or sub-contract agreement with regard to CDBG assisted activity, or with respect to the proceeds of CDBG assisted activity, either for themselves or those with whom they have business or immediate family ties . . ."

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Vice Mayor
Joseph P. Miller

Commissioners
Bill Ganz
Sylvia Poitier
Martin Popelsky

Interim City Manager
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Comment 1

Thus it would seem that there are two requirements that must be satisfied to trigger the obligation to seek a waiver. First, there must be some financial interest or benefit obtained by either the official or by someone with immediate family ties. Applying this test to , it is clear that as an officer of the Westside Deerfield Businessmen's Association he had a financial interest and thus satisfies one prong of the test. However, , from the information we have, is either the first or second cousin of the deceased ex-husband of Commissioner The ex-husband of Commissioner has been dead for a number of years and they were divorced even much longer ago than that. Therefore, the City of Deerfield Beach would respectfully suggest that the requirement of "immediate family ties" as set forth in Section 24 C.F.R. 570.611 is absent.

Comment 1

As for , clearly the immediate family ties issue test is satisfied. As to the financial interest or gain, it should be noted that prior to Commissioner vote on the matter in question, she stated on the record that her daughter, , was working as what amounts to an unpaid volunteer of the Westside Deerfield Businessmen's Association. Therefore, while satisfied the "immediate family ties" test, it is our contention that at this time, the representation made to the City was that had no financial interest.[1]

Comment 1

The two tests above appear to be threshold tests; that is before there is a need for a waiver both prongs of this threshold test must be satisfied. The City would respectfully suggest that in both cases the two prong test was not met and therefore there was no need to seek a waiver.

Comment 2

The second City official referenced in Finding # 1 was, temporary appointed Commissioner . City Commission records indicate that Commissioner was not a City Commissioner when the consent agenda item dated June 16, 2009 for Haitian American Consortium was presented for approval and therefore, was not a part of the Commission that approved this item (Attachment #1). The former temporary appointed Commissioner also reported that she had resigned from the Haitian American Consortium.

[1] No independent verification of this fact was made by the City with respect to Findings # 1.

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Finding 2: The City did not adequately support salary expenditures allocated to the program.

"The City did not maintain adequate supporting documentation to demonstrate that it properly allocated salaries to the program. Regulation 2 CFR Part 225, appendix B, section 8h (4), requires that when employees work on multiple activities a distribution of their salaries or wages be supported by personnel activities or equivalent document"

Regulation 2 CFR Part 225, appendix B, section 8 h(4) states:

"8.Compensation for personal services.

a. General.

Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;

(2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and

(3) Is determined and supported as provided in subsection h.

b. Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered

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reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness"

- The City of Deerfield Beach's Community Development Division salary allocation table referenced below is used by the City's Finance Department in the Division's cost center salary allocation accounting. When this chart is reviewed in conjunction with the referenced part of Regulation 2 CFR Part 225, appendix B, section 8 h(4), the City offers the following reasoning for consideration.
- Grants Coordinator salaries are/were reasonable and commensurate with other municipal agencies within the Metropolitan Statistical Area (MSA), identified as Miami-Fort Lauderdale, Pompano Beach (OMB code 33100).
- The accounting policy of the City of Deerfield Beach conforms to General Acceptable Accounting Principles (GAAP) which is also recognized by federal OMB Circulars as the common accepted accounting measurement standard.

2008-2009

Employee	SHIP	*CSC& Utd.Way	CDBG	CDBG-R	NSP	Total %
	*	*	85	15	*	100
		*	90	10		100
	5		60	35		100
	5	*	80	15	*	100

Table 1

- During this period fiscal year 2009 the City of Deerfield Beach's State Housing Initiatives Program (SHIP) annual allocation was to $56,814. SHIP allows 10% of allocated funds to be used for administrative cost. This translates to $5,681 to be allocated for salaries.

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- The Community Development Block Grant annual allocation for the corresponding fiscal year was $742,692; However, CDBG allow up to 20% of annual allocation to be used for administrative cost. This translates to $148,538.

A proportional comparison between the SHIP and CDBG administrative budgets evidences that the SHIP budget during these fiscal years was 4% of the CDBG budget, as indicated by chart 1 below.

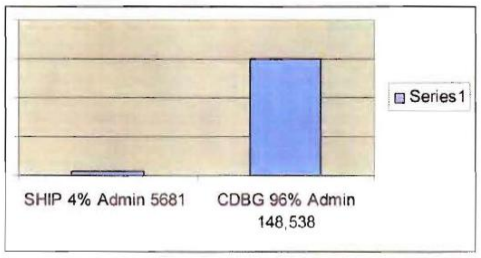

Chart 1

, Grants Coordinator:

core duties under the City's CDBG program included administering the City's First Time Home Buyer program and the Home Repair program. Specific tasks included: Application Intake, obtaining third party income and asset information, verifying/certifying applicants, procurement of repair vendors and subsequent oversight and co-ordination of projects, providing oversight of purchase of homes by FTHB's.

Comparatively, SHIP core responsibilities included completing the SHIP annual report and administering SHIP funds to FTHB and Home Repair eligible applicants through a layering of funds methodology. A qualitative and quantitative point of note is, both funding programs are composed of overlapping activities and also similar activities e.g. Both the SHIP and CDBG program use the same Income Certification process; so an applicant that is income certified in one program simultaneous is certified for another program *with the notable and very important exception being the separation of 120% of Area Median Income from the 80%* of Area Median Income.

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, Division Secretary

core duties under the SHIP program is one of providing program support and her task is directly related to that of the Grants Coordinator, . This correlation is reflected in the proportional consistency of the salary distribution table.

had no direct task associated with the SHIP program and the salary allocation chart reflects this. Her duties and responsibilities were associated with the CDBG and CDBG-R programs.

Comment 3

The City of Deerfield represents that although program specific timesheets were not maintained, the City's operational plan and scope of work associated with each funding source was proportional and consistent with the overarching "General" intent of Regulation 2 CFR Part 225, appendix B, section 8 h(4) as demonstrated by the salary allocation table and chart when compared with the total funding available for scope of work performance activities.

However, going forward fiscal year 2010-11 the City will design and implement a program specific timesheet to definitively track salary expenditures.

Finding 3: The City did not demonstrate compliance in meeting the National Objective for its housing activities.

"The City did not demonstrate compliance with HUD requirements in meeting the national objective for its housing activities. It did not maintain adequate supporting documentation to demonstrate that the individuals served were low and moderate income persons"

Comment 4

- was contacted as part of the City's due diligence and she provided a letter (Attachment # 2). She represents and provided documents that she is divorced from and he resided in a separate residence at the time of her application for assistance.

Comment 5

- If the allowable income for a student ($480) was included as part of the income certification document and added the total income for this family they would still be eligible; as the total income would then increase from 43,576 to 44,056. The threshold for income ineligibility is: $56,950.

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Comment 6

- was contacted as part of the City's due diligence and she represented verbally that she was divorced from at the time of her application and that is deceased. (Attachment # 3).

Comment 7

- contacted as part of the City's due diligence and she represented verbally that is her daughter, and that she has not resided with her in the last three (3) years, and those years included the time of her application for assistance.

Comment 8

- Additional property (Attachment # 4) is identified as an adjacent empty lot to residence with a total value as listed on the Broward County Property website of $14,880. When the allowable asset value calculation of 2% of imputed value is added to Income certification calculation, her total income increases from $14,339.16 to $14,638. Under allowable income certification standards would still be eligible for assistance.

I may be contacted if you have any question at 954-480-4264.

Sincerely,

Burgess Hanson

Burgess Hanson
City Manager

Attachments (4)

Cc: Andrew Maurodis, City Attorney
Jerry Ferguson, Director of Planning & Growth Mgmt.
Peter Parkin, Community Development Manager
Kilah White, Assistant Regional Inspector for Audit

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OIG Evaluation of Auditee Comments

Comment 1 The City stated that it did not seek an exception to HUD's conflict of interest provision because the requirements to initiate the waiver were not met. The City argued that while the president of Westside Deerfield Businessmen Association satisfied the "immediate family ties" test, the president had no financial interest in the HUD assisted activity. The City indicated that a City official stated on record that the president was an unpaid volunteer of the recipient. The City also indicated that although the executive director had a financial interest in the HUD assisted activity, the executive director was not an immediate family member of the City official.

The conflict of interest regulation at 24 CFR 92.356 prohibits elected or appointed officials and family members from obtaining monetary and nonmonetary benefits from the HUD assisted activity. Although the City has the City official's statement on record, the City did not provide documentation to show it corroborated the official's statement with the recipient or its president. In addition, the statement did not clarify whether the recipient's president received any nonmonetary benefits.

HUD Counsel stated that because of the family ties, the City was required to disclose these relationships to HUD. Therefore, the City did not seek exception to HUD's conflict of interest provisions as required.

Comment 2 The City stated that the second City official referenced in finding 1 was not in office when the City awarded HUD funds to the Haitian American Consortium on June 16, 2009.

Our report did not state that this official voted on the June 2009 award. Our report states that the second City official voted on March 3, 2009 to approve $12,207 in program funds to the Haitian American Consortium. We questioned the June 2009 award of $30,004 in Community Development Block Grant Recovery program funds because of the involvement of the first City official.

Comment 3 The City maintained that although it did not have program specific timesheets, the salary allocation was consistent with the scope of work and salary expenditure of similar entities. The City indicated that going forward it would implement a program specific timesheet to track salary expenditures.

The City did not provide documentation to support that the salary expenditures were properly and accurately charged to the program in accordance with Regulations at 2 CFR Part 225, appendix B. Therefore, the City did not adequately support salary expenditures and $142,248 in salary expenditures is unsupported.

Comment 4 The City indicated that it contacted the client in question and obtained additional information to show that the clients met the income eligibility requirement.

According to 24 CFR 570.208 (a), activities meeting the low and moderate housing criteria will be considered to benefit low and moderate income persons unless there is substantial evidence to the contrary. To comply with this criterion, the City should have obtained this information before it approved funding. Furthermore, the City recently obtained this information in response to our audit. As a result, the City risked awarding program funds to non-eligible clients. The City needs to strengthen its controls to ensure it complies with Federal regulations.

Comment 5 The City provided an affidavit and documentation to demonstrate that the household size was four.

Upon reviewing the additional documentation to support eligibility and the household size, we determined that the student's income would not affect the household income eligibility. We also provided and discussed this documentation with HUD. The additional documentation provided by the City supports this client's eligibility. However, the City should have requested this information from the client at the time of the income certification, prior to awarding program funds. As a result, the eligibility requirement is now satisfied and $25,000 in unsupported costs for this activity is now supported. We reduced the questioned costs totals for this finding.

Comment 6 The City stated that it spoke to the co-applicant and obtained the death certificate for the co-applicant's former husband.

The death certificate clarifies the household size, and supports that the client was eligible. However, the City should have clarified the co-applicant's marital status at the time of the application. Without the applicant's complete information, there is an increased risk that it could award program funds to a non-eligible person. We also provided and discussed this documentation with HUD. The additional documentation provided by the City supports this client's eligibility. As a result, the eligibility requirement is now satisfied and $33,060 in unsupported costs is now supported. We reduced the questioned costs totals for this finding.

Comment 7 The City responded that the client verbally represented that the client's daughter did not live with the client during the time the client applied for program funds.

The City did not provide any documentation to support this statement. Therefore, the City did not provide adequate documentation to support it achieved the national objective for this activity.

Comment 8 The City indicated that when it calculated the value of the property of $14,880 into the client's total income, the client would still be eligible for assistance.

The City used the Broward County's 2010 assessed value to determine the property's value. The Section 8 housing assistance payment program explains that the land is valued at market value. Therefore, the City's calculation is incorrect because the County's assessed value is not the market value of the property. Furthermore, the City used a value from 2010, when the program funds were awarded in 2008. Therefore, the City did not provide documentation to support it achieved the national objective for this activity and $28,298 in program funds remain unsupported.