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Audit Report Number	2007-DE-1001
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TO: Guadalupe M. Herrera, Director, Office of Community Planning and Development, 8AD

FROM: //signed//  
Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: The City and County of Denver, Colorado, Did Not Comply with HOME Investment Partnerships Program Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the City and County of Denver, Colorado's, (City) HOME Investment Partnerships Program (HOME). Our objective was to determine whether the City properly established, administered, and accounted for eligible HOME projects. We selected this audit as part of the Office of Inspector General (OIG) annual audit plan.

### **What We Found**

The City did not properly enter its data into the Integrated Disbursements and Information System (System). This resulted in the City incorrectly reserving more than \$720,000 in HOME funds.

The City did not have adequate controls over the administration of its HOME activities and funds. Therefore, the U.S. Department of Housing and Urban Development (HUD) lacked assurance that management properly accounted for or realized maximum benefit from the HOME funds.

## **What We Recommend**

We recommend that HUD require the City to implement policies and procedures to ensure that it accurately and completely enters and maintains all required information in the System and to ensure effective administration of the HOME program.

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

## **Auditee's Response**

We provided the draft report to the City on September 18, 2006, and received its written response on September 28, 2006. The City's response indicated general agreement with the findings and recommendations. The response detailed current and planned actions to address the recommendations.

The complete text of the auditee's response can be found in appendix B of this report.

# TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding 1: The City Did Not Properly Enter Its Data into HUD’s System	5
Finding 2: The City Did Not Have Adequate Controls over Its HOME Program	7
Scope and Methodology	10
Internal Controls	11
Appendixes	
A. Schedule of Funds to Be Put to Better Use	12
B. Auditee Comments and OIG’s Evaluation	13

## **BACKGROUND AND OBJECTIVES**

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The U. S. Department of Housing and Urban Development (HUD) designated the City and County of Denver (City) as a participating jurisdiction to receive annual Office of Community Planning and Development funding. For 2004 and 2005, the City signed a funding approval and HOME Investment Partnerships Agreement that established the funding and its terms. The City received HOME funds totaling more than \$5.6 million for 2004 and more than \$4.5 million for 2005.

In August 2004, a City executive order established the Office of Economic Development, which consisted of four divisions. The Division of Housing and Neighborhood Development (Housing Division) was responsible for administering the HOME and other HUD-funded housing programs. The Office of Economic Development also had the Financial and Information Services Unit that provided the accounting for the four divisions. The City's overall housing objective was to create "Decent Affordable Housing" for the purpose of "Improved availability and affordability."

The director of the Housing Division has been in her position for about two years. The two program managers responsible for the HOME program have been in their positions since January 2006. Before that, the positions were vacant for a year or more.

The Mayor and a 13-member city council govern the offices of the City. A director manages the daily operations of the Housing Division, which maintains its records at 201 West Colfax Avenue, Suite 204, Denver, Colorado.

Our objective was to determine whether the City properly established, administered, and accounted for eligible HOME projects.

## RESULTS OF AUDIT

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### Finding 1: The City Did Not Properly Enter Its Data into HUD's System

The City's Housing Division did not accurately or timely enter its data into HUD's System. The Housing Division had not developed or implemented policies and procedures to ensure that it accurately entered all required information into the System. This caused the City to unintentionally restrict the use of more than \$720,000 in HOME funds.

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#### Data Not Properly Maintained in the System

Of the 14 project files reviewed, we found that four contained instances of double System set ups and an incorrect set up. Housing Division staff established the required agreements with the contractors to commit the HOME funds for these projects. However, Housing Division staff then incorrectly set up three HOME projects into the System twice, each under two System numbers, and incorrectly set up \$22,000 in Community Development Block Grant funds as HOME funds. These incorrect duplicate set ups were still in the System at the end of our audit period. Since the funds were incorrectly set up in the System, the funds were not available to be set up for valid HOME projects.

First number	Second number	Amount
1491	1506	\$391,250
1489	1529	200,000
1505	1492	108,750
1492		22,000
Total		722,000

In addition, the Housing Division had not kept the data in the System current for several years. As of May 2006, Housing Division staff stated that they were working on correcting the data, but still needed to update System information for about 320 projects, including 52 HOME projects.

#### Adequate Policies and Procedures Not Developed

Housing Division management had not developed or implemented policies and procedures to ensure that its staff consistently entered all HUD-required information into the System. The double entries occurred because some staff members entered

the projects into the system at project approval and other staff members entered the project at contract execution. Different staff entered the same projects at different times under different System numbers.

To address the inaccuracies in the System, management implemented a new policy and appointed a System specialist for HUD-funded housing programs. However, program specialists did not provide the System specialist with the information needed to update and maintain the System, so the new procedure was not effective.

### **Restricted Use of More Than \$720,000 in HOME Funds**

The double and incorrect setting up of four separate projects restricted the use of \$722,000 in HOME funds for more than a year. Without these errors, the City would have had the funds available to use for other projects.

### **Recommendations**

We recommend that the director of HUD's Denver Office of Community Planning and Development require the City and County of Denver to

- 1A. Establish and implement policies and procedures to ensure that it enters all required information into the Integrated Disbursements and Information System and the data are accurate and complete.
- 1B. Make the necessary updates to the incorrect entries totaling \$722,000 and ensure that funding is available for use, and ensure that all open projects are current and accurate in the System.

## Finding 2: The City Did Not Have Adequate Controls over Its HOME Program

The City did not have adequate controls over the administration of its HOME activities and funds. Management did not take the actions necessary to improve the controls. Therefore, HUD lacked assurance that the City properly accounted for or realized maximum benefit from the HOME funds.

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### **Inadequate Controls over HOME Activities and Funds**

The City did not have adequate controls over the administration of its HOME activities and funds. HUD requires that grant recipients effectively control and account for all HOME funds. Examples of the deficiencies include the following:

- The Financial and Information Services Unit used three separate accounting systems to account for HOME funds, but the systems did not reconcile. The 2005 year-end reconciliation report contained more than \$593,000 in discrepancies. The Financial and Information Services Unit and the Housing Division did not effectively coordinate to resolve the discrepancies.
- The Housing Division did not have the required records identifying the source and application of HOME funds for each fiscal year. Therefore, it did not have the information needed to ensure that it met the requirements of committing the funds within two years and expending the funds within five years.
- The City exceeded the 120-day closure requirement for projects with final draws for many HOME projects. This extended the affordability period, in some cases by several years, which could cause undue hardship for the contractors.
- The City did not actively solicit proposals to meet HOME priorities, which resulted in more than \$10 million in HOME funds being available but not committed at the end of 2005.
- The City did not consistently set up or maintain project files that contained all required documentation. Therefore, it did not always have records of the actual status of the projects.

The City has been aware of many of these problems for several years, yet they still exist. HUD's Denver Office of Community Planning and Development also identified most of these deficiencies in monitoring reviews in 2003 and 2004. The

most recently available single audit report also contained a finding that the federal funds were not properly reconciled.

### **Inadequate Policies and Procedures and Management Oversight**

While the City was aware of these control weaknesses, it did not take the action necessary to correct them. The prior management hired a contractor to update the policies and procedures. Two years later, the update work is still in progress. In addition, the two key management positions responsible for providing oversight of the HOME activities were vacant for a year or more. This resulted in appointing staff members to act as managers while also fulfilling their own responsibilities.

### **Use and Benefits of HOME Funds Not Maximized**

Because management was not effectively controlling HOME program activities, HUD lacked assurance that the City accurately accounted for the funds in the System and required reports. Because management did not have effective procedures for committing HOME funds, management allowed extensive amounts to sit idle rather than using them for the intended benefits to the community.

### **Management Working on Improvements**

The Housing Division filled its two manager positions in January 2006 and is developing new policies and procedures. Housing Division management stated that in the past, contractors submitted proposals that directed the use of HOME funds. Current management officials stated that they need to determine the highest needs and areas in the City for development and then request proposals to meet those needs. The City should resolve many of its control problems if it implements procedures that ensure this approach.



## Recommendations

We recommend that the director of HUD's Denver Office of Community Planning and Development require the City to

- 2A. Establish and implement policies and procedures that ensure all financial systems reconcile, accurate and complete records are maintained, the close out of projects on time, and the selection of projects that address identified needs or areas for development.

## SCOPE AND METHODOLOGY

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We reviewed HUD and City criteria and contracts, met with HUD and City staff, and looked at HUD and City records.

We requested a list of all HOME projects with any activity during our review period. Housing Division staff provided two lists that were significantly different. One list contained 12 projects, reportedly all HOME projects with activity during 2004 and 2005. The other list contained 46 open HOME projects.

Using the two lists, we performed three separate processes to select our sample of 14 HOME project files for review. The list of 46 open projects showed old projects with no draw activities. We selected four of these projects with the largest project activity amounts for review.

For the second sample, we compared the two lists and identified the projects on the open projects list that were not on the other list. We selected the five projects with commitment dates during our audit period for review.

For the third sample, we compared the two lists and determined that there were 10 projects listed on both lists. We selected the five projects with the largest project activity amounts for review.

We used this three-step sample approach to obtain an understanding of the similarities and differences in the two lists. The file review showed that the Housing Division did not maintain the files consistently or completely (finding 2). The file review results supported information provided by Housing Division management and staff that each project specialist had his/her own procedures for file documentation.

Information provided for the first sample showed that Housing Division staff entered three projects into the System twice, each under two System numbers, and incorrectly combined Community Development Block Grant funds in a HOME project. These double or incorrect set ups resulted in restricting the use of HOME funds in the amounts of \$391,250, \$200,000, \$108,750, and \$22,000 for a total of \$722,000 (finding 1).

Our review period was from January 1, 2004, to December 31, 2005. We expanded the period as needed into 2006 to include actions of the current management. We did our work at the City's offices at 201 West Colfax Avenue, Suite 204, Denver, Colorado, from April to July 2006.

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

# INTERNAL CONTROLS

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

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

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

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## Relevant Internal Controls

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

- Controls over the proper maintenance of accurate, complete information in the System,
- Controls over accounting and reconciliation of HOME funds,
- Controls over administration of the HOME program, and
- Controls over procedures to ensure maximum use of HUD funds.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

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

- Housing Division staff did not properly maintain the System information (finding 1),
- HOME fund balances in the System did not reconcile to the City's two sets of accounting records (finding 2), and
- Housing Division management and staff did not have adequate or consistent controls over the administration of HOME activities (finding 2).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use 1/
1B	722,000.00

- 1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

For recommendation 1B, we determined that Housing Division staff entered three HOME projects into the System twice and incorrectly combined Community Development Block Grant funds in a HOME project. Because of these errors, the funds were not available to set up other programs for more than a year.

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### Ref to OIG Evaluation

#### Auditee Comments

#### Comment 1

OIG Written Comments/Response to 2006 HOME Review

*Finding #1: The City did not properly enter its data into HUD's System.*

*Recommendations:*

*1.A. Establish and implement policies and procedures to ensure that it enters all required information into the Integrated Disbursements and Information system and the data are accurate and complete.*

Response 1A: The City/County of Denver has drafted both an IDIS set up policy and close out policy. Additionally, the City has piloted a review focusing on an internal review of files and corresponding IDIS information. In the pilot, all updated and accurate information that was identified either through program files or an interview with program staff was updated in the IDIS system. It is the City's intention to conduct these internal reviews at least quarterly.

IDIS Set Up: Since February 2006, City staff has not set up any activities in the IDIS system before a contract for the activity has been fully executed. The City believes this will decrease both the need to cancel activities that may not progress to an executed contract and the set up of duplicative activities. Additionally, since there is now one specific staff member assigned to each of the three broad program areas (Housing, Neighborhood Development and Economic Development/Small Business) who is responsible for set up, updates and close out of the IDIS activities, duplicative entries should be almost eliminated. This draft will be submitted to the regional HUD office.

The contract documentation for activities has undergone significant revision to assure that the program and project specialists are providing the information needed to set up activities in IDIS for IDIS staff.

IDIS Close Out: To ensure that IDIS activities are closed out in a timely and accurate manner, an IDIS close out procedure has been drafted and reviewed by the majority of staff. The procedure identifies the roles, timelines and tools to close out an IDIS project. A draft of this procedure has been submitted to the regional HUD office. The policy adopts the close out forms produced by HUD that identify the information needed to close out each type of activity. This will support program/project staff's ability to provide needed and accurate information to IDIS staff.

IDIS Internal Reviews: A pilot internal review process was implemented through the summer of 2006 for all 2004 and 2005 HOME activities. This resulted in closing out several activities that were due for close out and provided accurate updates into the IDIS system for those activities that were not due for close out. The City intends to recreate this process on at least a quarterly basis and will be spearheaded by the new IDIS lead position which is also mentioned below. The pilot was completed less than one month from the writing of this response. A policy has not yet been drafted and the City will work with its regional HUD office to complete the policy. In addition to the review of files, the review will include a quarterly report identifying all open activities, recently closed activities and corresponding information (i.e. accomplishment data, budgeted and

expended amounts) for the managers' review. This will be the quality assurance check to assure that activities in the IDIS system are accurate and updated.

**IDIS Training:** The City has budgeted IDIS training in early 2007. This training will assist IDIS and fiscal staff in navigating through the system and entering required data. It will also provide managers and program/project staff with a better understanding of how to use IDIS to support the work they perform and how they can provide accurate and appropriate data to IDIS and fiscal staff to maximize IDIS's ability to tell Denver's "story". It will be the IDIS lead position's responsibility to also keep City staff updated on changes and revisions in the IDIS system as it relates to the work that each staff member performs and conduct regular training throughout the year on IDIS and associated reports.

*1B. Make the necessary updates to the incorrect entries totaling \$722,000 and ensure that funding is available for use and ensure that all open projects are current and accurate in the system.*

**Comment 2**

Response 1B: Each of the activities identified in the OIG report has been cancelled, many before the initial visit of OIG. The duplicate IDIS numbers and corresponding cancellation dates are listed below.

Duplicative IDIS Number	Rescinded Amount (at time of cancellation)	Date of Cancellation
1491	\$ 391,250	3/2/2006
1489	\$ 200,000	8/4/2005
1492	\$ 22,000	7/14/2006
1505	\$ 108,750	9/20/2005

Additionally, the City has made IDIS accuracy and completion a priority. Since January 2006, City staff has significantly reduced the number of open activities in IDIS for both Community Development Block Grant (CDBG) and HOME funding. Since January, City staff has closed out more than 200 CDBG activities and currently, there are only 36 open HOME activities. Additionally, CDBG generates a "Clean Up Report" and there were 329 activities listed on the January report to be addressed. In the September 1, 2006 report there were a total of 44 activities to address.

**Comment 3**

The lead IDIS position has been vacant since July 2006, but has been posted to be filled and the application due dates are September 29<sup>th</sup>. This position's primary responsibility will be to implement and revise the IDIS related policies identified in 1A, and to work with the City's managers and program staff to assure updated and accurate information.

*Finding 2: The City did not have adequate controls over its HOME program.*

*Recommendations:*

*2A. Establish and implement policies and procedures that ensure all financial systems reconcile, accurate and complete records are maintained, the close out of*

*projects on time and the selection of projects that address identified needs or areas for development.*

Response 2A.

**Comment 4**

**Financial Reconciliation:** The Financial Management Unit is making revisions to current policies and procedures for reconciliation of the current financial systems with IDIS.

**Accurate and Complete Records:** The City has piloted a review of program files and IDIS, which included development of a file checklist to ensure that all files had complete and accurate information. Program/project staff has established file checklists that identify both required program file documents and records. Also, as mentioned in Response 1A, an internal quarterly review will provide a quality assurance review. In 2006, the Division made complete and accurate files a goal in order to receive an annual bonus. The Performance and Asset Management Unit will review a selection of files in October 2006 to assess whether this goal has been achieved.

**Close out of Projects on Time:** The internal reviews, quarterly reports to managers and close out procedures will be implemented to ensure that activities are closed out in compliance with HUD regulations. These processes and procedures are explained further in Response 1A. The City is aware of the impact of IDIS close out dates on affordability periods and is addressing the issue.

**Selection of Projects that address identified needs or areas for development:** The City has established a multi-disciplined and community represented Affordable Housing Task Force in 2006. The goals of this Taskforce are to identify the affordable housing needs, challenges and priorities as well as the policies and strategies that will be implemented by the City to address them. In addition to implementing these policies and strategies, the City's Housing Unit is meeting biweekly to review all proposed projects and all project applications. On a monthly basis, the Housing manger is evaluating each fund account balance and working with staff to assure that projects are moving from concept to implementation in a way that is complimentary to the fiscal status of each fund. These processes will assure a more standardized method of evaluating projects and funding them.

### **OIG Evaluation of Auditee Comments**

The City's response indicated general agreement with the findings and recommendations. The response detailed current and planned actions to address the recommendations.

- Comment 1** If the City finalizes and implements the policies and procedures and internal review processes, the quality of the data in the Integrated Disbursements and Information System (System) should improve. The City has one impediment to the effective implementation of these policies and procedures, and that is that the Housing System specialist position has been vacant since July 2006.
- Comment 2** The City indicated it canceled most of the duplicate or incorrect projects before our site work. The City first gave us the summary schedule after we gave it the draft audit report. However, it has never provided us with any supporting evidence that it cancelled the projects.
- Comment 3** If the new System specialist is properly trained and the policies and procedures are finalized and effectively implemented, the City could realize an improvement in the accuracy and completeness of the System data.
- Comment 4** If the proposed policies and procedures and review processes are properly finalized and implemented, the City could realize improvements in the administration and accounting of the HOME Program.