
AUDIT REPORT



The Division of Grants Management, City of Hartford,
Connecticut, Paid \$1,039,296 for Ineligible Community
Development Block Grant Activities and Failed to Return
Income to the Program

2006-BO-1001

October 7, 2005

OFFICE OF AUDIT, REGION 1
Boston, Massachusetts



Issue Date October 7, 2005

Audit Report Number 2006-BO-1001

TO: Mary Ellen Morgan, Director, Office of Community Planning and Development,
Hartford, Connecticut, Field Office, 1ED

A handwritten signature in black ink, appearing to read "John Dvorak".

FROM: John Dvorak, Regional Inspector General for Audit, 1AGA

SUBJECT: The Division of Grants Management, City of Hartford, Connecticut, Paid
\$1,039,296 for Ineligible Community Development Block Grant Activities
and Failed to Return Income to the Program

HIGHLIGHTS

What We Audited and Why

We audited the City of Hartford's (City) Division of Grants Management's administration of the Community Development Block Grant (Block Grant) program. The audit was initiated based on an Office of Inspector General (OIG) Hotline complaint. The objectives were to determine whether the City (1) awarded grants to subrecipients for eligible activities and adequately monitored their performance to ensure its subrecipients were paid in accordance with the contract terms and met contract objectives, and (2) properly accounted for Emergency Demolition and Repair program income.

What We Found

The City did not always award grants to subrecipients for eligible activities. This occurred because the City's evaluation and award process did not include steps to ensure that the subrecipient's activities were eligible under the Block Grant

program. As a result, the City paid \$1,039,296 in ineligible costs associated with five of the 17 activities we reviewed. Of the \$1,039,296 in ineligible costs, \$831,796 related to activities ineligible under the Block Grant program and \$207,500 related to an activity that was ineligible under the cited eligibility category. We also identified funds to be put to better use for an additional \$394,461 allocated for ineligible activities for the City's Block Grant program year beginning July 1, 2005.¹ In addition, the City paid subrecipients in accordance with the contracts, but we could not always determine whether the contract objectives were met because the City did not have formalized monitoring procedures that documented whether the contract objectives were being met.

The City also did not properly account for Block Grant program income generated through its Emergency Demolition and Repairs program because the City did not have adequate controls to ensure repayments from Block Grant-assisted properties were properly returned to the program account. We identified \$62,515 in program income that was not returned to the program and an additional \$85,581 in receipts that were credited to the City's general fund, for which the City was unable to provide a breakdown by property. Without a breakdown, we could not determine how much of the \$85,581 represents program income. We also noted that an additional \$525,900 in receivables is at risk of not being returned because of the ineffective internal controls over the program receipts.

What We Recommend

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

- Develop and implement procedures to ensure that only eligible activities meeting Block Grant program objectives are funded.
- Repay the Block Grant program account the \$831,796 in ineligible costs from nonfederal sources or through future grant reductions.
- Repay \$207,500 in costs that were improperly classified as direct homeownership assistance category by applying an offsetting lower public service cap in future grant years.
- Reprogram the \$394,461 allocated for ineligible activities in the program year beginning July 1, 2005.

¹ These funds were associated with three of the 17 activities we reviewed.

- Repay \$62,515 in Emergency Demolition and Repair program income from the City's general fund.
- Identify the source of funding for the \$85,581 in unsupported Emergency Demolition, Repair program repayments, and repay applicable income to the Community Development Block Grant program.

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

The complete text of the auditee's response, along with our evaluation of that response, can be found in [appendix B](#) of this report. For finding 1, the city concurred that three of the grants we questioned were completely ineligible activities and one other (Riverfront Recapture) was partially ineligible. In addition, the city agreed that the final activity (HART program) was ineligible as classified. However, the city did not concur with the recommended monetary sanctions. For finding 2 the city concurred with our finding that program income should be returned to the Emergency Demolition & Repair program and is working to strengthen financial management controls over the program.

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BACKGROUND AND OBJECTIVES

The City of Hartford, Connecticut (City), as an entitlement community, receives annually from the U.S. Department of Housing and Urban Development (HUD) a formula-driven grant of Community Development Block Grant (Block Grant) program funds. The City expended \$14,511,797 in Block Grant program funds during the period July 1, 2002, through June 30, 2004. The \$14,511,797 amount included \$12,485,054 awarded by the City to subgrantees, including City departments and competitive Block Grant projects and programs funded to subrecipients. The remaining \$2,026,743 was expended on Block Grant administration costs.

The City's annual action plans show that during our audit period, the City allocated \$5,704,879 in Block Grant program funds to its competitively funded Block Grant projects and programs. Subrecipients submit proposals to the City for funding from the City's competitively funded Block Grant projects and programs. Competitively funded projects are awarded funding based on an annual notice of funds availability application process conducted by the City. The process involves the advertising of requests for proposals, the evaluation and related ranking of the application by grants management staff, and the recommendation for funding provided to the mayor, who may make changes. Following a 30-day public comment period and a public hearing before City Council, funding recommendations are finalized and adopted by the Mayor and the City Council.

Under the Emergency Demolition and Repairs program, the city demolishes or repairs blighted and unsafe properties. The Emergency Demolition and Repair program uses three funding sources for remediation costs, including the Block Grant, the general fund, and the Capital City Economic Development Authority. After the work is complete, the City bills the property owner for the costs. Repayments by the owners of Block Grant-assisted properties should be returned to the Block Grant program as program income. The Emergency Demolition and Repairs program has received Block Grant funding since 1991. During our audit period, the City reported \$575,395 in expenditures attributed to properties assisted with Block Grant funds under the Emergency Demolition and Repairs program. During this same period, City records show receipts totaling \$430,029 for remediation project costs, which were originally incurred throughout the duration of the program. These reimbursements were credited to the City's general fund lien demolition account.

We audited the City's administration of the Block Grant program funds. Our audit had two specific objectives, including (1) determine whether the City awarded grants to subrecipients for eligible activities and adequately monitored their performance to ensure its subrecipients were paid in accordance with the contract terms and met contract objectives, and (2) determine whether the City properly accounted for Emergency Demolition and Repair program income.

RESULTS OF AUDIT

Finding 1: The City Paid \$1,039,296 for Ineligible Block Grant Activities

Five of the seventeen activities we reviewed did not meet Block Grant eligibility requirements. The City

- 1) Paid \$831,796 in ineligible operating and maintaining costs under the public facilities and improvements category,²
- 2) Improperly paid \$207,500 for the costs of a homeownership counseling program under the direct homeownership assistance category,² and
- 3) Did not adequately document monitoring efforts to ensure that the activities met Block Grant program and contract objectives.

This occurred because the City’s evaluation and award process did not include steps to ensure that subrecipients’ activities were eligible under the Block Grant program. In addition, the City did not have a formalized monitoring policy in place to document achievement of contract objectives. As a result, the City paid \$1,039,296 ineligible activities as indicated in the table below and could not assure that contract objectives were met as follows

<i>Subrecipient</i>	<i>Block Grant citation</i>	<i>Why questioned</i>	<i>Amount</i>
Riverfront Recapture, Inc.	Public Facilities & Improvements	A portion of the costs were ineligible under Block Grant citation	\$310,171
Hartford Proud and Beautiful Litter Clean Up	Public Facilities & Improvements	Ineligible under Block Grant citation	\$369,625
Hartford Proud and Beautiful Hartford Blooms	Public Facilities & Improvements	Ineligible under Block Grant citation	\$50,000
Knox Park Foundation	Public Facilities & Improvements	Ineligible under Block Grant citation	102,000
Subtotal – public facilities and improvements			\$831,796
Hartford Area Rally Together	Homeownership Assistance	Ineligible under Block Grant citation	207,500
Total questioned			\$1,039,296

² According to 24 *Code of Federal Regulations* 85.20, 570.201(c), 570.201(n), and 570.207(b)(2); and the Block Grant Guide to National Objectives and Eligible Activities for Entitlement Communities.

We also identified \$394,461 in funds that should be reprogrammed for the City's Block Grant program year beginning July 1, 2005, related to ineligible activities that the City was planning to fund.

Operating and Maintaining Costs Not Eligible under Public Facilities and Improvements

The City paid \$831,796 for operating and maintaining costs for four activities ineligible under the Block Grant's public facilities and improvement activities categories. We originally questioned a total of \$1,118,758 related to these activities. However, the city was able to obtain additional supporting documentation from the subrecipients for the Riverfront Recapture activities and included it in their response (See [appendix B](#)) reducing our exceptions.

Block Grant funds under the public facilities and improvement categories may be used for acquisition, construction, reconstruction, rehabilitation, or installation of public improvements or facilities.³ However, the costs of improvements or operating and maintaining public facilities were not eligible expenses under these categories.⁴ For instance, the City paid to Riverfront Recapture, Inc., for personnel and administrative expenses associated with developing the City's riverfront. According to HUD Office of Community Planning and Development staff, some salary support could possibly be funded under 24 *Code of Federal Regulations* 570.201(c), "Public Facilities and Improvements," but the costs would be very limited in scope. For example, if there was building construction in progress, a clerk of the works to oversee the construction would be an eligible expense. Additionally, the costs of architecture and engineering and some other soft costs directly attendant to the construction hard costs could be allowed. However, the City's files did not contain evidence to demonstrate that the personnel and administrative expenses were directly tied to such activities or that the activities were eligible. As indicated above, the city obtained additional supporting documentation from subrecipients reducing our cost exceptions related to the Riverfront Recapture activities from \$597,133 to \$310,171 and our total exceptions from \$1,118,758 to \$831,796.

³ According to 24 *Code of Federal Regulations* 570.201(c); and the Block Grant Guide to National Objectives and Eligible Activities for Entitlement Communities.

⁴ According to 24 *Code of Federal Regulations* 570.207(b)(2); and the Block Grant Guide to National Objectives and Eligible Activities for Entitlement Communities.

The City also paid \$521,625 for ineligible operating and maintaining expenses of the City's public improvement activities. The operating and maintaining expenses were associated with three of the 17 activities we reviewed. They included projects in which the City paid \$369,625 to Hartford Proud and Beautiful for the operating costs of a litter cleanup program, \$102,000 to Knox Parks Foundation, Inc., to maintain community gardens, and \$50,000 to Hartford Proud and Beautiful for operating costs related to a Hartford Blooms program that placed planters throughout the City, including neighborhoods and the downtown central business district. The operating costs of a litter cleanup program, maintenance of the community gardens, and the Hartford Blooms program were not eligible activities under the Block Grant's public facilities and improvements activities categories.

**Homeownership Counseling
Cost Not Eligible Under Direct
Assistance Provision**

The City improperly classified \$207,500 in costs for a homeownership counseling program under the Block Grant's direct assistance provision.⁵ Block Grant funds under direct assistance may be used to subsidize interest rates and mortgage principal amounts, finance the costs to acquire property already occupied at an affordable price, pay all or part of the mortgage insurance premium, pay closing costs and up to 50 percent of the downpayment. However, the costs of running a homeownership counseling program were not eligible under the direct assistance provision. Instead the activity should have been classified as a public service program and subject to a 15 percent cap. Since the city exceeded the 15 percent cap for the years we audited, the costs would not have been eligible.

**\$394,461 Allocated in Program
Year July 1, 2005, for Ineligible
Activities**

The City's annual action plan included \$394,461 in Block Grant public facilities and improvement funds for the program year beginning July 1, 2005, that were allocated for ineligible activities indicated above. The funding was allocated to the Riverfront Recaptures, Inc. (\$199,461), Hartford Proud and Beautiful (\$165,000), and Knox Park Foundation (\$30,000).

⁵ According to 24 *Code of Federal Regulations* 570.201(n) or 570.200(a)(2) and 570.208(a)(1); and the Block Grant Guide to National Objectives and Eligible Activities for Entitlement Communities.

No Formalized Monitoring Policy

The City did not have a formalized monitoring policy that assured that contract objectives were met. The City's policy required that all activities undergo an on-site monitoring at least once annually. However, the policy did not formalize a method or procedures for monitoring subrecipient activities, and monitoring varied by contract manager. Some contacted the subrecipients by e-mail, some by telephone. However, generally these contacts were not documented in the project files. Fourteen of the seventeen files reviewed did not contain information regarding subrecipients' performance or achievement of contract objectives. As a result, the City could not always show that subrecipient performance was adequate or that contract objectives were met.

Conclusion

The City paid more than \$1 million for ineligible Block Grant activities and planned to continue funding more than \$394,461 for ineligible activities in the program year beginning July 1, 2005. This occurred because the City did not have adequate procedures to ensure that activities were eligible under Block Grant regulations. The City's process for awarding Block Grant funds did not provide steps to ensure that the City only used the funds for activities that fell under an authorized category of basic eligibility or that the activities were properly classified. Instead, the City's process only ensured that the activity met one of the City's priority needs categories. As a result, the City did not have the funds available for authorized activities to further Block Grant program objectives. In addition, the City did not have a formalized monitoring policy in place to assure that subrecipient performance was adequate or contract objectives were met.

Recommendations

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

- 1A. Develop and implement procedures to ensure that only eligible activities meeting Block Grant program objectives are funded.

- 1B Repay the Block Grant program account the \$831,796 in ineligible costs from nonfederal sources through future grant reductions.
- 1C Repay \$207,500 in costs that were improperly classified as direct homeownership assistance category to the public service category by applying an offsetting lower public service cap in future grant years.
- 1D. Reprogram \$394,461 in program year beginning July 1, 2005, Block Grant program funds to eligible activities.
- 1E. Develop and implement a formalized monitoring plan.

RESULTS OF AUDIT

Finding 2: The City Did Not Always Properly Account for Income from the Emergency Demolition and Repairs Program

The City did not always ensure that repayments made on properties assisted under the Emergency Demolition and Repairs program were returned to the Block Grant program account as program income. This occurred because the City did not have effective controls in place to ensure that program income was returned to the Block Grant program. The City also did not always maintain its Emergency Demolition and Repair program records in accordance with federal financial management requirements. As a result, \$62,515 in program income was improperly credited to the City's general fund, and the City could not provide us support for \$85,581 in receipts that were credited to the general fund during our audit period. Without the support, we could not determine how much of the \$85,581 was Block Grant program income. In addition, without adequate controls, an additional \$525,900 in program receivables may not be returned to the Block Grant program account as required.

\$62,515 in Program Income Improperly Credited to City's General Fund

Under the Emergency Demolition and Repairs program, the city demolishes or repairs blighted and unsafe properties. The City bills the property owner for the costs after the work is complete. Repayments by the owners of Block Grant-assisted properties are considered Block Grant program income. During our audit period, the City received \$430,029 in repayments that were posted to the City's general fund. During our audit period, the City expended another \$575,395 in Block Grant funds under the City's Emergency Demolition and Repairs program. Detailed information provided by the City showed that the City did not return at least \$62,515 in repayments made on Block Grant-assisted properties to the Block Grant program account. The \$62,515 was improperly credited to the City's general fund.

Records Did Not Show Origin of Funding for Assisted Properties

Although the City received \$430,029 in repayments for expenditures before July 2002 during our audit period, it was only able to provide details for \$344,448.

The City could not provide support for the remaining \$85,581 in Emergency Demolition and Repair program receipts that were credited to the general fund during our audit period. Without the support, we could not identify how much of the \$85,581 was Block Grant program income. Program records must adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to program expenditures and income.⁶ Federal financial management requirements also required the City to have effective controls to safeguard all assets.

\$525,900 in Potential Program Income at Risk of Not Being Returned and Used on Authorized Purposes

During our audit period, the City expended \$575,395 in Block Grant funds under the City's Emergency Demolition and Repairs Program. Of the \$575,395 expended, \$49,495 in Block Grant program income had been repaid to the City,⁷ but only \$16,190 had been returned to the Block Grant program. The remaining \$525,900 was unpaid as of April 14, 2005. Without adequate controls to ensure that repayments made on Block Grant-assisted properties are properly returned to the Block Grant program, there is limited assurance that all of the funds will be returned to the program and used for only authorized purposes to further program objectives.

Recommendations

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

- 2A. Repay the \$62,515 in Emergency Demolition and Repair program income that was improperly credited to the City's general fund.
- 2B. Identify the source of funding for the \$85,581 in unsupported repayments and ensure that payments are properly credited to the

⁶ According to 24 *Code of Federal Regulations* 85.20(b)(2).

⁷ Of the \$49,495 repaid, \$16,190 was properly returned to the Block Grant program, and the remaining \$33,305 was improperly retained in the City's general fund. The \$33,305 is included in the \$75,735 total that was improperly returned to the City's general fund (see previous page text box "\$75,735 in Program Income Improperly Credited to City's General Fund").

Block Grant for any funds repaid for which the Block Grant was the funding source.

- 2C. Develop and implement procedures to ensure that all future Block Grant program income, including the \$525,900 unpaid as of April 14, 2005, is properly credited to the Block Grant program account.

SCOPE AND METHODOLOGY

To achieve our audit objectives, we

- Reviewed program requirements, including federal laws and regulations, Office of Management and Budget circulars, and HUD's Office of Community Planning and Development Community Development Block Grant Guide to National Objectives and Eligible Activities for Entitlement Communities;
- Reviewed the City's consolidated plans, annual action plans, Consolidated Annual Performance and Evaluation Report, independent public accountant's reports, and HUD monitoring reviews;
- Interviewed City and HUD personnel and officials;
- Reviewed Emergency Demolition and Repair program accounting records, including records showing repayments made during our audit period; and
- Selected a sample of activities that were allocated funding during our audit period. The sample was selected from the universe of the grants awarded by the City to various subrecipients per the 2002-2003 and 2003-2004 Consolidated Annual Performance and Evaluation Reports. The universe included 77 activities with funding totaling \$5,704,879. Our sample included 17 of the 77 activities with funding totaling \$2,075,672. The sample was selected by taking a few activities from each eligibility category. The selection was based on risk factors such as dollar value, whether they were recurring grants, and descriptions of the activities. We reviewed the project files maintained and provided by the City and documents therein to determine the whether the City was funding eligible activities. Our audit results only apply to the sample reviewed and were not being projected over the universe.

We performed our fieldwork between February and July 2005. We conducted the majority of our fieldwork at the City's Division of Grants Management office, located at 250 Constitution Plaza in Hartford, Connecticut. Our audit covered the period of July 1, 2002, through June 30, 2004, but was expanded to include other periods when necessary. We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Controls over eligibility determinations.
- Controls over payments made on contracts.
- Controls over monitoring subrecipient performance.
- Controls over the Emergency Demolition and Repairs program income.

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:

- The City's award process did not have controls to ensure that only eligible activities received funding (see finding 1).
- The City did not have adequate controls to ensure that all subrecipients were monitored and that the monitoring efforts were documented in the program files (see finding 1).
- The City did not have controls to ensure that all program income generated through the Emergency Demolition and Repairs program was properly returned to the Block Grant program (see finding 2).

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/	Funds to be put to better use 4/
1B	\$831,796			
1C				\$207,500 ⁸
1D				\$394,461 ⁹
2A	\$62,515			
2B		\$85,581		
2C				\$525,900 ¹⁰

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

4/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (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.

⁸ Reduction in outlays – reduction in public service cap for future year(s)

⁹ Avoidance of unnecessary expenditures

¹⁰ Other savings – future repayments properly returned to Block Grant program

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION


Ref to OIG Evaluation

Auditee Comments

SEP-23-2005 16:47 GRANTS MANAGEMENT 860 722 6061 P.02

CITY OF HARTFORD

Office of the Mayor
550 Main Street
Hartford, CT 06103
Tel: (860) 543-8500



September 23, 2005 Sent via fax and mail on 9/23/05

REVISED ON 9/23/05

Mr. John Dvorak
Regional Inspector General for Audit, Region I
U.S. Department of Housing and Urban Development
New England Office of District Inspector General for Audit, 1AGA
Thomas P. O'Neill, Jr. Federal Building, Room 370
10 Causeway Street
Boston, Massachusetts 02222-1092

RE: City of Hartford's REVISED Draft Response to Discussion Draft Audit Report (2005-BO-100X)

Dear Mr. Dvorak:

This response to the audit of the City's Community Development Block Grant (CDBG) program conducted by the Office of Inspector General shall address your office's comments, recommendations and findings. As Mayor I would like to thank you in advance for your most serious review of this response.

The City received the Discussion Draft Audit Report on September 8, 2005 and subsequent follow-up letter on September 14, 2005, denying my request for an extension. It should be noted for the record that the City has not had sufficient time to review the 19-page report, and develop a comprehensive response within the requested seven business days.

Your September 14, 2005 letter stated, "Please note that we are not requesting a formal detailed action plan as part of your management comments..." This contradicts the letter received on September 7, 2005, stating, "Comments should address each recommendation and state how it will be implemented or present alternative actions and show how the alternative action will correct the problem the recommendation was designed to fix." In my opinion the Office of Inspector General is requesting a plan, however, we are asking for further clarification.

In addition, your September 14, 2005 letter stated, "Please also note that we have met on several occasions to provide these preliminary results to the Grants Program Administrator." During the six-month audit period many informal conversations occurred with the Grants Program Administrator and her staff, covering a number of topics and contracts. Nonetheless, it was only at the request of the Grants Program Administrator, Ms. Karen Winey, that formal status reports were given. It is my understanding the Grants Program Administrator did not receive a list of the potential sanctions from the Auditor-In-Charge, Kristen Ekmalian, until requested on August 3, 2005 and received on August 8, 2005 (see attached e-mails dated August 3 and 8, 2005).

I have been informed that at the time of the City's Entrance Conference on February 24, 2005, there was an oral agreement that the Auditor-In-Charge was to include the Grants Program Administrator in

Comment 1

Comment 2

Ref to OIG Evaluation

Auditee Comments

SEP-23-2005 16:07

GRANTS MANAGEMENT

860 722 6261 P.03

Comment 3

any meetings other than one-on-one staff interviews. Ms. Winey informed me one such meeting took place with two of her staff people and lasted three hours. The Grants Program Administrator reminded the Auditor-In-Charge of their agreement (see attached e-mail dated June 10, 2005). The basis for the Grants Program Administrator's presence during any meeting was to minimize any inconsistencies or misinformation presented to the Auditor-In-Charge or other OIG staff.

For the past thirty-one program years, through the guidance, assistance and support of the HUD-Hartford Field Office, the City of Hartford has successfully administered and managed in excess of \$173 million in CDBG funds. It is therefore surprising that the Auditor-In-Charge has determined five long-standing CDBG activities are now deemed ineligible. The HUD-Hartford Field Office and the Grants Division have always worked in cooperation with program development, and it has always been the City's practice to respond fully to all requests for information during HUD monitoring visits. The City of Hartford, in fact, points with pride to the quality of the programs we manage and the local HUD office's role in providing us with advice and counsel as we plan and implement CDBG programs.

It is also important to note that previous CDBG Grants Program Administrators and their respective senior staff originally awarded and continued to award these long-standing programs now under scrutiny. It is, in large measure, on the basis of their decades of CDBG experience that the current Grants Program Administrator continued this practice.

Comment 4

I do not concur with any recommended monetary sanctions and certainly not for three consecutive years. This is tantamount to liquidated damages, which implies the City operated with intent. Let me make it clear there was no intent on the part of the City to fund ineligible activities. We have already rectified issues regarding Program Year 31 (FY 2005-06). I would also note the City continues to have a positive working relationship with the local HUD Field Office staff and will continue to rely heavily upon them for technical assistance.

I look forward to the exit conference to discuss these issues further; it would have been helpful if it were scheduled *before* the submission of the City's response. Therefore, the City reserves the right to submit additional comments following the exit conference. If you have any questions you may contact my office at (860) 543-8500 or Karen Winey, the Grants Program Administrator at (860) 757-9274.

Sincerely,



Eddie A. Perez
Mayor

Cc: Lee C. Erdmann, Chief Operating Officer
John F. Palmieri, Director-Development Services
Karen L. Winey, Grants Program Administrator
Julie Fagan, Field Office Director, HUD-Hartford
Mary Ellen Morgan, CDP Director, HUD-Hartford
Gary Relsine, Public Trust Specialist, HUD-Hartford
Kristen Ekmalian, OIG-Hartford, Auditor-In-Charge
Michael A Motulski, OIG-Boston, Assistant Regional Inspector General

September 20, 2005

2

City Draft Response to Discussion of
Draft OIG Audit Report

CITY OF HARTFORD'S RESPONSE TO DISCUSSION DRAFT AUDIT REPORT (2005-BO-100X)

ENTRANCE INTERVIEW

On February 24, 2005 your office met with the Director of the Development Services Department, Grants Program Administrator and staff. Page 3 and 4 of the Entrance Interview document stated the "Audit Period and Areas for Review." They were:

1. Our audit period is 7/1/02 – 6/30/04 (expanded as necessary)
2. Meets HUD requirements for receipts and expenditure of CDBG Program Income;
3. Has developed and implemented adequate procedures to ensure environmental reviews are in compliance with HUD regulations;
4. Adequately oversees and monitors its CDBG sub-recipient contracts; and
5. Has procedures to ensure that the CDBG Program is only charged for CDBG related expenses.

Additional Areas

6. Unreconciled differences between the CAPER's unexpended balance and the City's total reconciling balance.
7. Progress on Neighborhoods of Hartford, Inc. activities

City's response

- The City understands the term of the audit period can be expanded as necessary however; the sanctions in the audit *appear* to also cover Program Year 30, (FY 2004-05), although it is not stated in the report.
- We have received no specifics on Items 2 (other than the License & Inspection Program), 3, 5, 6 or 7. For example, the Grants Program Administrator was informed by the Auditor-In-Charge that your office was satisfied with administrative expenditures but it is not found in the report.
- The entrance interview conclusion states, "We will make every effort to ensure timely communication of any audit findings and conclusions. This will ensure the completeness and the accuracy of factual matters and providing additional assurance of OIG's fairness and objectivity. We intend to communicate our audit results in three steps:
 1. Draft audit findings to the auditee during the audit;
 2. Discussion of the draft audit report at the exit conference; and
 3. Final draft audit report issued for comment after exit conference.

It is unclear why this draft report is due before the exit conference.

Below are the City's responses to findings, comments and recommendations that appear in the audit.

OIG Comment 1: "What We Found": Page 1, Last Paragraph:

"The City did not always award grants to sub-recipients for eligible activities. This occurred because the City's evaluation and award process did not include steps to ensure that the sub-recipient's activities were eligible under the Block Grant Program."

City Response: During the City's Notice of Funding Availability (NOFA) process for CDBG applications, the Division of Grants Management reviews every application individually and as a group. This is also the basis for developing the sub-recipient's contract. Last year for the first time and in the interest of streamlining and expediting the process, long-standing successful programs were renewed without the submission of an application, and only if the program remained unchanged (see attached examples of a Table 3, CDBG contract and renewal letter).

Comment 5

Comment 6

Ref to OIG Evaluation

Auditee Comments

The Table 3's included in the Annual Plan clearly denoted the national objective, eligible activity via the HUD Matrix Code and CDBG citation. Staff develops the Table 3's during the NOFA process, which are reviewed for returning programs and created for new ones. The Auditor-In-Charge recommended the list of eligible activities be incorporated into the CDBG applications. Unfortunately, matrix codes would be confusing to the average potential sub-recipient. However, the staff evaluation form has always included written instructions regarding selection of eligibility categories. This form was in the "General Information" binder, which was given to the Auditor-In-Charge. The NOFA process takes no fewer than seven months and during that time reviewing eligibility issues is occurring on an on-going basis. (See Instructions for Completing Table 3's, dated January 7, 2002). In addition, the CDBG application, staff evaluation forms and sub-recipient contracts all denoted the National Objective."

Comment 7

OIG Comment 2: Page 2, Paragraph 1, Sentence 1

"As a result, the City paid \$1,326,258 in ineligible costs associated with 5 of 17 activities we reviewed."

City Response

The City believes two of the five referenced programs identified by the OIG are eligible. Riverfront Recapture, Inc., a public facility using CDBG funds for soft costs for its improvement projects and Hartford Area Rally Together-CHARGE, an eligible housing counseling program under the public service activity was previously categorized as a housing activity.

Comment 8

OIG Comment 3: Page 2, Paragraph 1, Sentence 2

"We also identified funds to be put to better use for an additional \$394,461 allocated for ineligible activities for the City's Block Grant program year beginning July 1, 2005."

City Response

The Auditor-In-Charge notified the Grants Program Administrator of the five ineligible programs after the Division of Grants Management released the award letters to its sub-recipients on May 13, 2005 for Program Year 31. The City has already informed the affected sub-recipients. A Mayoral resolution to the Court of Common Council has been drafted to address this and when passed, will take effect retroactively to July 1, 2005, the beginning of the City's fiscal year. In addition, staff reviewed all on-going activities to ensure compliance with CDBG National Objectives and Eligibility requirements and as such, have made additional modifications, which are also in the draft resolution. Also, the Internal evaluation form used in the Notice of Funding Availability (NOFA) process has been modified to require the evaluator to identify not only the National Objective but also the Eligible Activity via the HUD Matrix Code and HUD citation (see attached draft Year 32 NOFA Application and internal evaluation form).

Comment 9

OIG Comment 4: Page 2, Paragraph 1, Last Sentence

"In addition, the City paid sub-recipients in accordance with the contracts, but we could not always determine whether the contract objectives were met because the City did not have formalized monitoring procedures that documented whether the contract objectives were being met."

City Response

The City requests clarification term "contract objectives." There are national objectives, eligibility categories, outcome measures and the "intent" of the project. All four of these items are noted in every contract's scope of service and budget. Going forward it will again be noted in their contract but the citation for the National Objective and Eligible Activity, will appear verbatim in the text under "Eligibility" Paragraph in the Scope of Services. In the past the citation alone was noted as a reference (see sample contract).

Also, in the Year 28 Site Monitoring Visit Form, Question 10 states, *"Based on the evidence available, does it appear that the grantee's program/project is being implemented in accordance will eligible activity*

Requirements." National Objectives, Eligible categories and performance measures, are continually discussed from the point of application, contract award, sub-grantee mandatory orientation, development of scope and budget, analyzing draw downs, which include quarterly performance measures, submittal and approval of all payments by the contract managers, fiscal officer and Grants Program Administrator. Monitoring does not happen solely from a site visit but occurs non-stop during the tenure of the sub-recipient's contract with the city, which is almost impossible to document as "formalized monitoring."

Not only was monitoring discussed in staff meetings (meeting minutes available upon request) but also the verbal and written monitoring procedures are noted in each CAPER submittal. When the new Grants Program Administrator took over the division on July 1, 2003, she requested a schedule from each contract manager regarding their site visits of all sub-grantees for that program year. In addition, contrary to past practice all contract were to be bound. If samples were pulled from dates prior to July 1, 2003, it is possible they were misplaced.

Monitoring is noted below in the CAPER 2003:

"Also new in Year Three was the requirement that each CDBG contract manager visit their CDBG funded programs before the first reimbursement was made. This policy was put in place to assure that all CDBG funded projects would be monitored at least once per year, and also to ensure that CDBG funded agencies understood and were keeping the required information to document income eligibility and Hartford residency. The requirement continued successfully in Year Four."

And in the Year Five (FY2005-06) Annual Plan:

"CDBG Program Monitoring: All CDBG technical monitoring requirements specified by HUD will be met, including those required under Section 108 and any float loan provisions. Contract Managers, who are responsible for monitoring program recipients, will conduct at least one site-visits of each grant recipients during PY 30 to ensure that CDBG recipients are meeting all requirements."

While a site visit form is being used, going forward, the Division of Grants Management will use the most recent HUD Monitoring Form, noted in the March 2005, U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Community Development Block Grant Program, "Managing CDBG, A Guidebook for Grantees on Sub-recipient Oversight; HUD-2005-03-CPD, "Checklist for On-Site Monitoring of a Sub-recipient Community Development block Grant Program (see Attachment). This will be modified as needed.

OIG Comment 5: Page 2, Paragraph 2, Sentence 1

"The City also did not properly account for Block Grant program income generated through its Emergency Demolition and Repair program because the City did not have adequate controls to ensure repayments from Block Grant-assisted properties were properly returned to the program account."

City Response

The City does have controls in place and CDBG repayments for this project are being made. The program requires the cooperation of no less than three departments-the Department of Public Works, Development Services-Division of Licenses and Inspections (this was a separate department until 7/1/04) and Grants Management Division and Corporation Counsel (lien process)-to make this program work. The City of Hartford's Chief Internal Auditor, Patrick Campbell, recently audited this program and deficiencies have been identified. A copy was given to the Auditor-In-Charge. Although this is a very complicated process, the City is now developing a very aggressive protocol for this program, which includes addressing the collection of liens. No further CDBG funds will be committed to this program until formal procedures are in place.

Comment 10

Ref to OIG Evaluation

Auditee Comments

Comment 11

SEP-23-2005 16:09

GRANTS MANAGEMENT

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P.07

OIG FINDING 1: THE CITY PAID \$1,326,258 FOR INELIGIBLE BLOCK GRANT ACTIVITIES.

OIG: Finding 1, Item 1, Page 6

"The City "paid \$1,118,758 in ineligible operating and maintaining costs under the public facilities and improvements category."

City Response:

In light of this audit, the Division of Grants Management met with the HUD-Hartford Field Office to review the costs associated with this program. The Field Office requested written documentation of how the program met a national objective and eligible activity. The funds have traditionally been applied to not only the engineer (Director of Park Planning and Development), who spends 100% of his time on the multiple Riverfront Improvement projects but also that of other staff members salaries who are directly involved with these projects. The Field Office requested we extract for Program Years 28-30, FY's 2002-05 (the years reviewed by the Auditor-In-Charge), 100% of the salary of the engineer; 10% of the Chief Executive Office and 10% of Finance Director. At the time of this writing we were only able to gather the data for the engineer. We reserve the right to adjust the Program Years 28-30 amounts when they become available. The recommended allowable expenses are, for Program Year 28 (FY 2002-03) \$96,976.43; Program Year 29 (FY 2003-04) \$88,334.50; and Program Year 30 (FY 2004-05) \$101,651.15. This is a total of \$286,962.09. We are also requesting in Program Year 31 (FY 2004-05), \$135,986 in allowable expenses (See attached letter to HUD dated September 15, 2005).

After reviewing the remaining three improvement programs in question and associated sanctions-Hartford Proud and Beautiful-Litter Clean-up (\$369,625 for three years) and Hartford Proud and Beautiful-Hartford Blooms Program (\$50,000 for three years) and Knox Park Foundation-Community Garden Program (\$102,000 for three years)-the City believes these programs do meet a National Objective but after further discussion with HUD, agrees these programs are not CDBG eligible activities.

Effective Program Year 31 (FY 2005-06), it is the intent of the City to fund Riverfront for \$135,986 as an eligible public and facility improvement project. Both the Hartford Proud and Beautiful programs and Knox Park will not be funded through Public Facility and Improvement Projects. There will however, be a Knox Park Program under the public service category, which is presently in development.

OIG: Finding 1, Item 2, Page 6

"Improperly paid \$207,500 for the costs of homeownership counseling program under the direct homeownership assistance category."

City Response

During the same audit in March of 2003, this program was also monitored and found to be eligible based on the monitoring visit and the April 23, 2003 Community Development Block Grant Program Monitoring Report (see attached).

The City re-examined this activity. It appears the Hartford Area Rally Together – Homeownership Assistance program was previously categorized as a housing activity when it should have been placed in the public service category. It does meet the National Objective of benefiting low-moderate income households (project files are available for review) and is an eligible public service activity.

OIG: Finding 1, Item 3, Page 6

"Failed to adequately ensure and document that the activities met one of HUD's national objectives."

City Response

Although the City concedes that three of the five noted programs may not be eligible activities, we continue to maintain they meet the National Objective for low/moderate income residents on city-wide, area basis. The City of Hartford has 76.50% low-moderate income residents. In accordance with HUD Regulation Citation; 570.208 (a)(1)(i), noted in the contract:

September 20, 2005

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City Draft Response to Discussion of Draft OIG Audit Report

Comment 13

Ref to OIG Evaluation

Auditee Comments

"An activity, the benefits of which are available to all the residents in a particular area, were at least 51% of the residents are low- and moderate-income persons. *Such an area need not be coterminous* with census tracts or other officially recognized boundaries but must be the entire area served by the activity. An activity that serves an area that is not primarily residential in character shall not be qualified under this criterion."

The City's position is that because the area in question is not conterminous pursuant to the above regulation it would meet the National Objective benefiting low-and moderate-income residents.

OIG: Finding 1, Item 4, Page 6

"Did not adequately document monitoring efforts to ensure that the activities met Block Grant program and contract objectives."

City Response

Refer to City's response to OIG Comment 4.

Comment 14

OIG Comment 6: Page 6, Paragraph 2, Sentence 1

"This occurred because the City's evaluation and award process did include step to ensure that sub-recipients' activities were eligible under the Block Grant program."

City Response

Refer to City's responses to OIG Comments 1 and 4.

Comment 15

OIG Comment 7: Page 6, Paragraph 2, Sentence 2

"In addition, the City did not have a formalized monitoring policy in place to document achievement of contract objectives."

City Response

Refer to City's responses to OIG Comments 1 and 4.

Comment 16

OIG Comment 8: Page 7, Paragraph 2, Sentence 4

"For instance, the City paid to Riverfront Recapture, Inc. \$597,133 for personnel and administrative expenses associated with developing the City's riverfront..For example, if there was building construction in progress, a clerk of the works to oversee the construction would be an eligible expense. Additionally, the cost of architecture and engineering and some other soft costs directly attendant to the construction hard costs could be allowed. However, the City's files did not contain evidence to demonstrate that the personnel and administrative expenses were directly tied to such activities or that the activities were eligible."

City Response:

Refer to City's response to OIG Comment 4.

Comment 17

OIG Comment 9: Page 8, Paragraph 2, Sentence 1

"The City's annual action plan included \$394,461 in Block Grant public facilities and improvement funds for the program year beginning July 1, 2005, that were allocated for ineligible activities indicated above. The funding was allocated to the Riverfront Recaptures, Inc. (\$199,461), Hartford Proud and Beautiful (\$165,00), and Knox Park Foundation (\$30,000).

City Response

September 20, 2005

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City Draft Response to Discussion of Draft OIG Audit Report

Ref to OIG Evaluation

Auditee Comments

Comment 18

Refer to City's Response to OIG Comment 3.

OIG Comment 10: Page 8, Paragraph 3, Sentence 1

"In addition to the activities being ineligible under the cited provisions, the City did not show they achieved a national objective. HUD regulations required the City to determine and maintain documentation of compliance with the national objectives. Activities carried out by Riverfront Recapture, Inc., Hartford Proud and Beautiful Litter Clean Up, and Hartford Proud and Beautiful, Hartford Blooms all claimed the national objective of benefiting low-and moderate-income people on an area basis."

City Response

Refer to City Responses to OIG: Finding 1, Item 3.

Comment 19

OIG Comment 11: Page 9, Paragraph 1

"The City did not have a formalized monitoring policy that assured that contract objectives were met. The City's policy required that all activities undergo an on-site monitoring at least once annually. However, the policy did not formalize a method or procedures for monitoring sub-recipients activities, and monitoring varied by contract manager..generally these contacts were not documented in the project files..As a result, the City could not always show that sub-recipient performance was adequate or that contract objectives were met."

City Response

Refer to City's responses to OIG Comments 1 and 4.

Comment 20

OIG Comment 12: Page 9, Paragraph 2

"The City paid more than \$1.3 million for ineligible Block Grant activities and planned to continue to funding more than \$394,461 for ineligible activities in the program year beginning July 1, 2005. The occurred because the City did not have adequate procedures to ensure that activities were eligible under Block Grant regulation. The City's process for awarding Block Grant funds did not provide steps to ensure that the City only used the funds for activities were properly classified. Instead, the City's process only ensured that the activity met one of the City's priority needs categories. As a result, the City did not have the funds available for authorized activities to further Block Grant program objectives. In addition, the City did not have a formalized monitoring policy in place to assure that subrecipient performance was adequate or contract objectives were met."

City Response

Refer to City's responses to OIG Comments 3 and 4.

Comment 21

FINDING 2: THE CITY DID NOT ALWAYS PROPERLY ACCOUNT FOR INCOME FROM THE EMERGENCY DEMOLITION AND REPAIRS.

OIG Comment 13: Page 11, Paragraph 1, Sentences 1 and 2

"The City did not always ensure that repayments made on properties assisted under the Emergency Demolition and Repair program were returned to the Block Grant program account as program income. This occurred because the City did not have effective controls in place to ensure that program income was returned to the Block Grant Program."

City Response

The demolition program is an eligible activity, which rids city neighborhoods of blighted structures and repairs viable housing stock, thereby assuring a safe and suitable living environment for all Hartford residents; it enables the City, as well, to comply with the State Building Code by abating and/or repairing structures deemed unsafe.

Comment 22

This program includes the recovery of liens, which can take from a few months to many years to collect. Although the City's internal audit identified the potential of the recovery of CDBG funds, in reality, the collection rate on most lien programs is extremely low.

Sentence 1: The Division of Grants Management did ensure that repayments made on all properties *that were identified and processed by the Division of License & Inspections* under the Emergency Demolition and Repair program were returned to the Block Grant program as program income.

Sentence 2: Controls were in place to ensure that program income was returned to the Block Grant Program. The License & Inspection Division forwards to the Division of Grants Management payments of funds returned to the city and the Division of Grants Management extracts the CDBG funds, which are then deposited as program income. Again it can only identify funds that were repaid to properties *identified by the License & Inspection Division*.

Returning CDBG funds for this program is very complicated and involves the active participation of three departments. As a result of an internal audit and this audit, the Licenses and Inspections Division is currently in the final stages of designing a database structure and reporting system, which will greatly increase the efficiency of staff in managing CDBG activities. This database will be integrated into the new Housing and Code Enforcement software currently being installed in the Division. When fully integrated, several existing manual and semi-automated systems will be eliminated.

The reporting system, which will be accessible by CDBG financial staff, will provide an up-to-date status on Emergency Demolitions and Repairs paid with Block Grant funds, plus any liens, which have been recaptured. It is anticipated that the new database will be installed and fully functional by the first quarter of calendar year 2006.

While this solution is being implemented, CDBG and Licenses & Inspections staff will continue to manually review lien payment records to identify all CDBG supported services, which can be reimbursed by the General Fund.

It is important to note that the resolution of this problem is in part due to the collaborative efforts between the Divisions of Licenses and Inspection (previously an independent department) and Grant Management, which is now under the auspices of the Department of Development Services.

OIG Comment 14: Page 11, Paragraph 1, Sentence 3

"The City also did not always maintain its Emergency Demolition and Repair program records in accordance with federal financial management requirement."

City Response

This statement appears to identify two different topics; "program records" and "in accordance with federal financial management requirements." The contract manager keeps program records and the Accountant and Fiscal Officer keep the related financial documents. The item requires clarification.

OIG Comment 15: Page 11, Paragraph 2, Sentences 1 & 2

"Under the Emergency Demolition and Repairs program, the city demolishes or repairs blighted and unsafe properties. The city bills the property owner for the costs after the work is completed."

City Response

Refer to City's response to OIG Comments 13.

OIG Comment 16: Page 12, Paragraph 2, Sentence 4

"Without adequate controls to ensure that repayments made on Block Grant-assisted properties are properly returned to the Block Grant program, there is limited assurance that all of the funds will be returned to the program and used for only authorized purposes to further program objectives."

City Response

Refer to City's response to OIG Comments 13.

OIG Recommendation 2A, Page 12, Paragraph 3

"Repay the \$62,515 in Emergency Demolition and Repair program income that was improperly credited to the City's general fund."

City Response

The "Standard Operating Procedure" called for funds to be deposited in the general fund budget, then those CDBG program income funds would be identified and transferred to the CDBG program income account. The necessary documents for the identified properties are being gathered which will enable the accurate transfer of funds. The new protocols will include funds being directly deposited into the CDBG program income account on a regular basis.

OIG Recommendation 2B, Page 12, Paragraph 3

"Identify the source of funding for the \$85,581 in unsupported repayments and ensure that payments are properly credited to the Block Grant for any funds repaid for which the Block Grant was the funding source."

City Response

Licenses and Inspections Division staff is actively working to identify the properties associated with the \$85,581 in lien payments received during the audit period. Once the properties are identified, they will be cross referenced with the list of CDBG funded expenses and any lien payments will be transferred from the General Fund to the CDBG account. The goal is that this will be accomplished by the end of October 2005.

[NOTE: Footnote #7 on page 12 of the Draft refers to \$75,735 that was improperly credited to the City's General Fund. That amount should be the \$62,515 noted in Recommendation 2A.]

OIG Recommendation 2C, Page 13

"Develop and implement procedures to ensure that all future Block Grant program income, including the \$525,900 unpaid as of April 14, 2005, is properly credited to the Block Grant program account"

City Response

Refer to City's response to OIG Comments 13.

SCOPE AND METHODOLOGY

OIG Comment 17: Page 14, Second Bullet

"To achieve our audit objectives we reviewed the City's consolidated plans, annual action plans, Consolidated Annual Performance and Evaluation Report, independent public accountant's reports, and HUD monitoring reviews."

City Response

Although not noted in the OIG report, the Audit-In-Charge also received the internal audit report of the License & Inspection Demolition and Repair Program, IDIS reports, multiple year contract status reports, Notice of Funding Ability (NOFA) Applications, Evaluation Forms of Applications and 2003-05 evaluation spreadsheet, accounting reports of the License and Inspection Demolition Program, CDBG contracts, etc.

Ref to OIG Evaluation

Auditee Comments

SEP-23-2005 15:10	GRANTS MANAGEMENT	860 722 6061 P.12
OIG Comment 18: Page 15, Paragraph 3 under Relevant Internal Controls	<i>"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."</i>	
City Response	This statement needs clarification. It states "if" these issues exists. Do these weaknesses exist and if so what are they?	
OIG Comment 19: Page 15, 3rd set of bullets, 1st bullet	<i>"Based on our review, we believe the following items are significant weaknesses:</i>	
	<ul style="list-style-type: none"><i>• The City's award process did not have controls to ensure that only eligible activities received funding (see finding 1).</i>	
City Response	Refer to City's responses to OIG Comments 1-4	
OIG Comment 20: Page 15, 3rd set of bullets, 2nd bullet	<i>"Based on our review, we believe the following items are significant weaknesses:</i>	
	<ul style="list-style-type: none"><i>• The City did not have adequate controls to ensure that all sub-recipients were monitored and that the monitoring efforts were documented in the program files (see finding 1).</i>	
City Response	Refer to City's responses to OIG Comments 1-4.	
OIG Comment 21: Page 15, 3rd set of bullets, 3rd bullet	<i>"Based on our review, we believe the following items are significant weaknesses:"</i>	
	<ul style="list-style-type: none"><i>• "The City did not have controls to ensure that all program income generated through the Emergency Demolition and Repairs program was properly returned to the Block Grant program (see finding 2)."</i>	
City Response	Refer to City's responses to OIG Comments 1-4.	
September 20, 2005	11	City Draft Response to Discussion of Draft OIG Audit Report
		TOTAL P 12

OIG Evaluation of Auditee Comments

Comment 1 Communications between OIG and grants management officials were ongoing throughout the audit process. On June 9, 2005, we met with grants management officials to discuss our audit results to date. Our discussion that day included both issues that are identified as audit findings. On July 28, 2005, we met with grants management officials to discuss our audit results to date and provided outlines of the two draft findings. The information in the finding outlines is in essence the same as that in the draft report.

The September 7, 2005 memo relates to the transmittal of the draft report for comments on the accuracy of the findings, implementing the recommendations and included standard OIG language requesting written comments. Discussions between OIG and grants management officials subsequent to the transmittal disclosed a misunderstanding of the extent of what the written comments should cover. The September 14, 2005 letter was sent to clarify the difference between written comments and the audit resolution process. The City will develop a comprehensive corrective action plan in the audit resolution process that occurs between HUD Program and City officials after report issuance.

Comment 2 OIG only met one-on-one with grants management staff throughout the audit to obtain information as it related to our audit. OIG did not hold separate meetings with staff to obtain information on the administration of the program without the grants management official, and the official was so informed during a subsequent staff meeting attended by OIG. The discussion in question was a presentation of our entrance conference material to grants management staff that did not attend the entrance conference.

Comment 3 As indicated later in the City response (**See Auditee Comments 11, 2nd paragraph and 13**), the City concurred that three of the five activities were ineligible. The fact that the City funded such activities for years has no bearing on the eligibility of the activities. The City is responsible for ensuring that it funds only eligible activities.

Comment 4 Requesting repayment for Block Grant funds spent on ineligible activities is standard OIG practice and is in no way meant to be construed as liquidated damages.

Comment 5 The audit was expanded as necessary as it related to ineligible activities funded during our audit period.

The areas of review discussed at the entrance conference related to our survey. Our survey results covering the areas mentioned were communicated verbally to grants management staff, including that testing related to the use of CDBG funds for non-CDBG expenses showed that the City did have adequate procedures to ensure that these fees/costs were reasonable and necessary. We also specifically

discussed that compliance with environmental regulations would not be reviewed as part of the audit because of an on-going review of the City's environmental procedures and compliance by HUD's CPD program staff. At the completion of the survey, the audit objectives were revised accordingly. During the audit, ongoing discussions were held periodically to communicate the findings and conclusions.

An exit conference is normally scheduled for a day or two after transmittal of the Discussion Draft report (September 7, 2005). However, grants management officials were unable to attend an exit conference until September 22, 2005, after the September 20, 2005 date that the written comments were expected. At the September 22, 2005 exit conference, OIG agreed to accept a revised City response on September 23, 2005.

Comment 6 The City's application process, including the evaluation of the applications, does not have a specific step that includes an eligibility determination. If it did, staff would have determined that the cited activities did not meet the eligibility criteria for which they were funded.

Comment 7 The City provided additional information to demonstrate the eligibility for \$286,962 of the \$597,133 expended on Riverfront Recaptures from July 1, 2002, through June 30, 2004. We evaluated the additional information and concur that the \$286,962 represents eligible costs. The audit report was adjusted to reflect this reduction.

In addition, after discussions with HUD staff, we agreed to revise the monetary recommendation related to the Hartford Area Rally. The usual sanction or remedy imposed by HUD for exceeding the cap is to apply an offsetting lower cap in a future year or period of years. Our recommendation was revised accordingly.

Comment 8 The City agreed to reprogram the cited activities in the current program year. The City has also revised the internal evaluation form to include an eligibility determination.

Comment 9 Audit testing showed that for 14 of the 17 activities reviewed, there was no monitoring documentation in the project files. The City agreed to increase and modify the monitoring process.

Comment 10 The City stated that it has controls in place, and Block Grant repayments are being made. However, when we told the director of the Office of Grants Management that Emergency Demolition and Repair program repayments were income that should be returned to the program, she indicated that she was unaware of this requirement. During our audit, we determined that the director had been informed by her staff that there was no structure in place to ensure repayments made on Block Grant-funded properties were returned to the Block

Grant program. Therefore, we disagree that the City had adequate controls in place.

We also note that internal auditors previously addressed some of the deficiencies.

Comment 11 The City provided additional information to demonstrate the eligibility for \$286,962 of the \$597,133 expended on Riverfront Recaptures from July 1, 2002, through June 30, 2004. We evaluated the additional information and concur that the \$286,962 represents eligible costs. The audit report was adjusted to reduce our questioned cost to \$310,171.

The City agreed that the activities by Hartford Proud and Beautiful, Hartford Blooms, and Knox Park Foundation were not eligible activities.

Comment 12 The City could not fund the Hartford Area Rally Together under the public service category since public service was already funded at the 15 percent statutory cap. After discussions with HUD staff, we agreed to revise the monetary recommendation related to the Hartford Area Rally. The usual sanction or remedy imposed by HUD for exceeding the cap is to apply an offsetting lower cap in a future year or period of years. Our recommendation was revised accordingly.

Comment 13 The City's position is that the activities served the entire city. Although the project files do not include documentation on how the activities served the entire City and not just the area in which they are located (Riverfront and Central Business District), we agreed to remove this issue from the report.

Comment 14 Refer to OIG Evaluation of Auditee Comment number 9.

Comment 15 Refer to OIG Evaluation of Auditee Comment numbers 6 and 9.

Comment 16 Refer to OIG Evaluation of Auditee Comment numbers 6 and 9.

Comment 17 Refer to OIG Evaluation of Auditee Comment number 9.

Comment 18 Refer to OIG Evaluation of Auditee Comment number 8.

Comment 19 Refer to OIG Evaluation of Auditee Comment number 13.

Comment 20 Refer to OIG Evaluation of Auditee Comment numbers 6 and 9.

Comment 21 Refer to OIG Evaluation of Auditee Comment numbers 8 and 9.

Comment 22 The City generally agrees with this finding and has agreed to the report's recommendations.