



U.S. Department of Housing and Urban Development

District Office of the Inspector General
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September 24, 1996

Audit Related Memorandum
No. 96-AT-241-1826

MEMORANDUM FOR: John Perry, Director, Office of Community Planning
and Development, 4AD

FROM: James D. McKay
Acting District Inspector General for Audit,
Southeast/Caribbean, 4AGA

SUBJECT: Limited Review of
Cobb County HUD Program Operations
Marietta, Georgia

We completed a limited review of Cobb County's operation of the Community Development Block Grant (CDBG) and Home Investment Partnerships Act (HOME) Programs. Our review focused on the County's procurement of the contract administrator. We reviewed records maintained at HUD, Cobb County and the contract administrator. We also interviewed the staffs at the respective locations. We performed the review during June 1995 through April 1996.

We noted indications of deficiencies that warrant attention by HUD and County staff. We did not develop the administrative deficiencies as we normally would to meet reporting standards for generally accepted government auditing standards. Our review was not an audit of County activities and our observations are related to our limited review.

SUMMARY

The County needs to implement improvements in the process followed to procure the services of a professional consultant to administer its HUD funded and related programs. We found that:

- The County did not (a) clearly describe whether its HUD program administrator's contract was a fixed price or cost reimbursable agreement, (b) adequately analyze the reasonableness of the contractor's proposed rate for overhead/profit, (c) adequately solicit proposals, and (d) prepare a price analysis.

- The County paid for CDBG administrative services (\$112,832) which we believe the contract administrator should have performed.
- The County paid for rehabilitation inspections and work-write-up services (\$80,340) which we believe the contract administrator should have performed.
- The County did not adequately monitor the performance of the contract administrator.

Details of our findings and recommendations are discussed in Attachment 1. We discussed the results of the review with Cobb County officials during the review and at an exit conference held on June 7, 1996. The County's written response is included as Attachment 3.

Within 60 days, please give us, for each recommendation in Attachment 1, a status report on: (1) the corrective actions taken; (2) the proposed corrective actions and the date to be completed; or (3) why actions are considered unnecessary. Also, please furnish us copies of any correspondence or directives issued as a result of this review.

We provided a copy of this memorandum to the auditee.

If you have any questions, please contact me or Narcell Stamps, Senior Auditor, at (404) 331-3369.

Abbreviations

CDBG	-	Community Development Block Grant
CFR	-	Code of Federal Regulations
CHDO	-	Community Housing Development Organization
DOL	-	U.S. Department of Labor
ESGP	-	Emergency Shelter Grant Program
HOME	-	Home Investment Partnerships Act
HOPWA	-	Housing Opportunities for Persons with Aids
OMB	-	Office of Management and Budget
RFP	-	Request for Proposal
RRP	-	Rental Rehabilitation Program
SDA	-	Service Delivery Area
WFN	-	W. Frank Newton, Inc.

Attachments

- 1 - Findings and Recommendations
- 2 - Schedule of Ineligible and Unsupported Costs
- 3 - Auditee Comments
- 4 - Distribution

Background

Since 1982, Cobb County has used the same consultant, W. Frank Newton Inc., (WFN) to administer its CDBG and related programs. The latest contract, which started October 1, 1993, was still in effect during the time of our on site review. WFN's administrative contract was for three consecutive 1 year periods. The last renewal will expire September 30, 1996.

During the audit period, WFN was responsible for administering the following HUD programs:

<u>Programs</u>	<u>Funding Level for Program Years</u>		
	<u>1993</u>	<u>1994</u>	<u>1995</u>
CDBG	\$3,164,489	\$3,430,000	\$3,013,000
HOME ¹	1,745,000	2,547,000	2,719,000
ESG	32,000	77,000	103,000
HOPWA	<u>178,293</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$5,119,782</u>	<u>\$6,054,000</u>	<u>\$5,835,000</u>

The County used the competitive proposal method to solicit and obtain proposals for a contract administrator to administer the CDBG and a non-HUD program. The County asked prospective contractors to provide a separate price for each of the three 1 year periods to be covered by the contract. The County received only two proposals and awarded the contract to WFN. Subsequently, the County executed additional contracts with WFN to administer the other HUD programs.

The County also provided WFN with an office for his staff and other related support using HUD funds. The other support costs included items such as office equipment, telephones, copiers, office supplies, and reimbursement for travel.

¹ Includes Cobb County and the HOME Consortium.

FINDINGS AND RECOMMENDATIONS

Finding 1 - Inadequate Procurement Practices

Cobb County did not follow required procedures when it contracted with a consultant to administer its various HUD programs. The County did not (a) clearly describe whether its contracts with WFN were fixed price or cost reimbursable agreements, (b) adequately analyze the reasonableness of WFN's proposed contract rate for overhead/profit, (c) adequately solicit requests for proposals (RFP), and (d) conduct a price analysis. These issues may have unduly restricted competition, reduced assurances that the services were obtained at the best price, and allowed expenditures for excessive overhead/profit.

We reviewed the County's 1993 HUD program administrative contract award for compliance with requirements and evaluated the contract compensation provisions for reasonableness.

Contract Compensation Provisions Not Clear

The County's contracts with WFN did not clearly state whether WFN would be compensated based on a fixed price or a cost reimbursable type agreement. Some of the contract language indicated the contract was a cost reimbursable contract. For example, paragraph II.C. of Attachment 2 of the contract dated August 13, 1993 provides that the consultant will prepare compensation reimbursement requests which detail consultant individual and total salary/personnel expenses, plus a standard factor of .5 of salaries for all consultant administration/overhead burden expenses. This language implies that the consultant is to be compensated on a cost reimbursement basis plus an allowance for overhead. Other language, however, implied that the contract was a fixed price contract. For example, paragraph I of Attachment 2 states the total cost of this contract is \$273,600.

The County provided its interpretation in a response, dated February 2, 1996, which stated, "... it is the opinion of the County that the contracts, at least in part, are fixed price in that a certain amount was bid or proposed by Newton, accepted by the County, and included in the "not to exceed" price or fee in the contracts...."

We believe the County needs to clarify future contracts in order to prevent misinterpretation. The contract method of compensation is important because it determines the level of documentation required to support progress payments. Cost reimbursable contracts require a higher level of documentation for costs. For instance, cost reimbursable contracts require compliance with rules that govern direct (e.g., personnel) and indirect (administrative/overhead) costs. These rules do not apply to fixed price contracts.

High Overhead/Profit Rate Not Evaluated

To be allowable under Federal financial assistance programs, costs must be necessary and reasonable for proper and efficient performance and administration (OMB Circular A-87, Attachment A, paragraph C, item 1a). To the contrary, the County's CDBG and HOME contracts with WFN allowed the firm a n

excessive 50 percent markup for overhead and profit. The contracts did not designate how much of the 50 percent rate was for profit and how much was for overhead costs. During the period January 1, 1993 through January 31, 1996, the County paid WFN \$405,999 for overhead and profit (\$280,168 for CDBG and \$125,831 for HOME).

The 50 percent rate was not reasonable because the County used additional HUD funds to make separate direct payments for a major portion of WFN's overhead costs. For instance, the County used HUD funds to pay for office space, equipment, and supplies to provide and equip the offices used by WFN's staff. Considering these separate payments, the 50 percent rate paid for overhead/profit was excessive. The County should have negotiated a reduction in the 50 percent rate giving consideration to the County's separate HUD expenditures to support WFN's office operations.

Competitive Procedures Not Adequately Followed

Federal procurement regulations require that all procurement transactions be conducted in a manner providing full and open competition (24CFR 85.36, paragraph (c) (1)). However, the County did not use proper competitive procedures when it awarded WFN multiple contracts that totaled over \$1.3 million to administer the following HUD programs:

Program	Evidence of Competition	<u>WFN Contract Amounts For</u>				
		<u>1993-94</u>	<u>1994 -95</u>	<u>1995-96</u>	<u>Total</u>	
HOME	No		\$117,300	\$134,100	\$140,805	\$392,205
ESG	No		1,600	3,850	5,150	10,600
HOPWA	No		0	11,664	0	11,664
SDA	No		111,225	0	0	111,225
CDBG	Yes		<u>273,600</u>	<u>284,544</u>	<u>295,926</u>	<u>854,070</u>
Total			<u>\$503,725</u>	<u>\$434,158</u>	<u>\$441,881</u>	<u>\$1,379,764</u>

Lack of Competition

The County did not clearly identify the programs on which prospective bidders were expected to bid. Also, the County did not use competitive procedures for some of its awards.

Language in the County's 1993 bid advertisement and Request for Proposals (RFP) indicated the prospective bidders were expected to submit a bid for all HUD programs. For example, the bid advertisement requested proposals for administering the CDBG, CSBG and other grants. The RFP also requested proposals to administer the CDBG, CSBG, and other HUD related grant programs. Page 3 of the RFP states:

"Cobb County desires to contract with an organization that will provide the professional and technical services of designing, planning, budgeting, project implementation, monitoring, and reporting its CDBG, CSBG, and other HUD grantsmanship programs. The contractor is to represent the County in all matters pertaining to the controlling Federal and State agencies."

This language implied that the bid was to include all programs.

Other parts of the RFP indicated the bid was to cover only the CDBG and CSBG Programs. For example, page 15 of the RFP required the contractor to state separately the required compensation for administration services for the CDBG and CSBG Programs. Also, Appendix 1 listed the revenues and expenditures for the past 3 years for the CDBG and CSBG Programs.

The County received two proposals in response to the solicitation and awarded the contract to WFN. Subsequently, the County awarded separate contracts to WFN to administer the HOME, ESG, HOPWA, and SDA Programs. The County did not advertise for proposals nor did it solicit RFPs prior to awarding WFN an additional \$525,694 (\$111,225 for SDA) to administer these programs. Furthermore, the County did not prepare a price analysis or have any other documentation to support the additional contract amounts.

Inadequate Solicitation of Requests for Proposals (RFP)

While procuring services to administer its CDBG Program the County ran the advertisement only in its official local organ which had a circulation of only 32,000.

Cost or Price Analysis Not Performed

Grantees must perform a cost or price analysis in connection with every procurement transaction (24CFR 85.36 (f)(1)). Nevertheless, the County did not document a price analysis for the original administrative contract executed with WFN. Also, the County did not prepare cost or price analyses for the separate HOME, ESG, HOPWA, and SDA contracts awarded to WFN.

Auditee Comments

Contract Compensation Provisions Not Clear

The County contends the contracts were fixed price. However, they agreed to clearly describe whether a contract is cost reimbursable or a fixed price agreement in all future administrative contracts.

High Overhead/Profit Rate Not Evaluated

The County contends it was not required to negotiate profit as a separate component of cost because there was price competition. County officials also contend the contract prices were necessary and reasonable.

Competitive Procedures Not Followed

County officials contend the RFP contains a statement that the administrator may be asked to perform other grantsmanship activities such as HOME, ESGP, etc. They stated that WFN knew the County might add other work based on the firm's accepted 1993 proposal to administer the CDBG Program. The officials stated they executed additional contracts with WFN because it was more efficient to have one qualified administrator run its various programs.

The County contends it complied with local purchasing guidelines and procedures in the handling of the bid advertisements. County officials said they published the ad in the Marietta Daily Journal for 7 consecutive weeks. They decided that it was not necessarily in their best interest to run the advertisements in other Metro Atlanta newspapers because past advertisements had not generated responses.

Price Analysis Not Performed

County officials contend a lesser degree of analysis was required because the County had paid for like services for 9 years.

OIG Evaluation

Contract Compensation Provisions Not Clear

The County agreed that the contract compensation provision was not clear.

High Overhead/Profit Rate Not Evaluated

We believe the circumstances raised a compelling question about the reasonableness of the overall procurement transaction. Specifically, WFN submitted a contract proposal showing proposed maximum contract prices calculated using personnel costs times a 50 percent overhead/profit factor. In addition, the County used CDBG funds to provide and equip the offices WFN and his staff used to administer the contract. Given this extra level of support, we believe the County, despite WFN's low bid, should have attempted to negotiate a reduction in the 50 percent overhead/profit rate.

Competitive Procedures Not Followed

We agree with the County's desire to have one administrator. However, the County could have accomplished its objective by combining all HUD programs into one properly executed procurement transaction. The County's decision to split the work into segments without following competitive procedures for the contract awards circumvented requirements.

We believe the advertisements should have been more widely circulated especially considering that the County is part of the Metro Atlanta area which has a population of over 3 million. This action would have exposed the RFP to a larger number of prospective contractors. The intent of the procurement process is best served by expanding versus restricting awareness to needed contract services. This is particularly so when past advertisements for similar services generated low response.

Price Analysis Not Performed

The County did not address the lack of a price estimate to support the amounts awarded to WFN for the additional programs.

Recommendations

We recommend that you require the County to:

- 1A. Ensure that the language in future administrative contracts clearly describes whether the contracts are cost reimbursable or fixed price agreements.
- 1B. Establish controls to ensure future compliance with Federal procurement requirements. The County should improve its procedures to maximize competition (including clarifying advertisements and RFPs for services), negotiate reasonable contract compensation, and prepare cost and/or price analysis.

We also recommend that your office:

- 1C. Review and determine the reasonableness of the 50 percent overhead and profit rate included in the County's contracts with WFN. Require the County to reimburse HUD programs for any overhead/profit payments determined to be excessive and/or unreasonable.
- 1D. Review and determine the reasonableness of contract prices negotiated by the County without following competitive procedures. Require the County to reimburse HUD programs for any contract payments determined to be excessive and/or unreasonable.

Finding 2 - Unnecessary Service Delivery Area Costs

The County executed a separate contract with WFN to administer a CDBG activity that was already within the scope of WFN's existing CDBG administrative contract. The County paid WFN \$112,832 to administer the activity and spent \$63,778 for the related furniture and equipment. The County has now abandoned the activity. The inappropriate payments reduced funds that should have been available and used for other program purposes.

WFN's original administrative contract required the firm to ascertain the extent of other CDBG activities, conduct such activities as appropriate, and perform all other CDBG work in concert with the County Board of Commissioners (Section 14). Other sections of the contract (Sections 1.22, 2.1, and 11.9) contained wording related to WFN's responsibility to carry out additional CDBG activities.

Despite this wording, the County executed an additional separate contract with WFN. The separate contract required WFN to complete the administrative process needed to qualify Cobb County as a U.S. Department of Labor (DOL) Service Delivery Area (SDA) and to set up an office to carry out the activity. The County wanted the SDA designation so that it could receive direct DOL funding. The County added a CDBG administrative activity to charge costs (primarily personnel) associated with obtaining the SDA designation and to equip an office to handle the SDA function.

We believe WFN was already required to perform these services under its existing contract to administer the CDBG Program. The County did not adjust the price of WFN's CDBG administrative contract to offset the amounts paid under the separate SDA agreement. The \$112,832 includes \$69,517 for personnel salaries, \$33,908 for overhead and profit, and \$9,407 for other costs such as office rent and travel/registration fees.

DOL officials told us that the efforts to establish the SDA were not time intensive enough to warrant such high costs. We analyzed the steps in the SDA process and agree with DOL's assessment.

We noted that the SDA contract and the County's later contract with WFN to administer the SDA (funded by DOL) required WFN to develop procurement and monitoring procedures and management information systems. These functions were also among those WFN was expected to perform under its contract to administer the County's CDBG Program. WFN primarily used staff and space previously in place to administer the County's DOL program to formulate the SDA, instead of the staff and space the County paid for under WFN's contract to administer its CDBG program. The SDA development period (October 1993 through June 1994) spanned a period of dormant DOL funding of project activities (October 1993 through April 1994²).

² Funding for DOL's Summer Youth Program resumed in April 1994.

SDA Terminated

The County decided to terminate the SDA activity after only about 24 months of operations and the expenditure of \$176,610 in CDBG funds. On March 21, 1996, the County advised the Georgia Department of Labor that it would discontinue the Cobb SDA designation effective June 30, 1996. County officials stated that this action resulted from issues raised in a recent audit by the Federal DOL's Office of Inspector General and because the Board decided the DOL SDA Program had too many regulations to comply with and was too intensive.

The reasons cited by the County for abandoning the SDA indicates questionable planning for an d monitoring of the SDA activity. As discussed in Finding 4, the County never conducted a formal review of WFN's operations, a concern also raised in DOL' s audit. Representatives from the Georgia DOL, who administer the SDA programs at the state level, told us that there had not been an y substantial change in SDA requirements since the County first applied for and was approved for SDA status. Thus, the County was not faced with new requirements that came into force after it decided to undertake the SDA effort. The decision to abandon the SDA, considering the lack of significant changes, indicates that the County's planning for and implementation of the SDA activity needed more attention than was given.

Furniture and Equipment Costs

The County made direct purchases totaling \$63,778 for office furniture and equipment (including computer hardware and software) for SDA offices that may no longer be needed. The County needs to provide information to show that these items will be used and/or disposed of in accordance with program requirements.

Auditee Comments

The County contends that the services required by the SDA contract were not included in WFN's overall CDBG administrative contract. County officials said both parties to the contract understood this and that WFN could not have performed the additional services without additional compensation.

The County contends its decision to terminate the SDA is not reflective of any questionable planning. County officials said they canceled the SDA designation effective July 1996, because the excessive regulation by DOL made it virtually impossible to carry out the activity. This included an overburdensome amount of monitoring, auditing, and duplicity of effort required of both the contractor and the County.

The County agrees the furniture and equipment purchased for the SDA may no longer be needed. The County is prepared to properly transfer or otherwise dispose of this furniture and equipment. Proceeds from such dispositions will be recorded as CDBG Program income.

OIG Evaluation Our conclusions remain unchanged.

Recommendations

We recommend that you require the County to:

- 2A. Reimburse the CDBG Program \$112,832 for duplicate administrative fees incurred to obtain SDA designation.
- 2B. Submit for your approval, a plan to use or dispose of all furniture and equipment purchased and charged to the SDA activity.

Finding 3 - Dual Payments for the Same Rehabilitation Services, \$80,340

The County contracted with an inspector to perform services which WFN was already required to perform. Thus, the County paid an unnecessary \$80,340 for rehabilitation inspections and work write-up services. The additional contract reduced funds available for other eligible program purposes.

The County contracted with a separate inspector to perform work write-up and construction inspections. The County paid the inspector \$80,340 for the period January 1, 1993 through November 30, 1995. The wording in the County's RFP, WFN's proposal, and WFN's contract however, indicated that WFN was to perform all housing rehabilitation inspections and work write-ups. The following excerpts illustrate WFN's responsibilities:

County's Request for Proposal (RFP) The RFP required proposed contractors to submit offers that would provide for the:

"... professional and technical services of designing, planning, budgeting, implementing, monitoring, reporting, its CDBG, CSBG, and other HUD grantsmanship programs."

The RFP also provided that submission of a proposal constituted an irrevocable offer to perform the proposed services at the proposed compensation. The RFP did not indicate the County would need or elect to award separate contracts to assist in providing project service delivery, such as rehabilitation inspection services.

WFN's Proposal WFN's proposal included a separate amount for the administration of the County's CDBG Housing Rehabilitation Program. WFN's proposal gave a detailed explanation of the firm's distinction between the price proposed for general administration and the price proposed for rehabilitation project delivery services. WFN's proposal provided:

"These activities are separate from the CDBG Program Administration activities since it is for the delivery of eligible housing/housing rehabilitation Project Service Delivery activities.

"WFN has designed and implemented the **only** computerized Housing Rehabilitation Program in the State of Georgia, and possibly the Southeast, which contains all Work Write-up information, Cost Estimator, and Program/Client Database information, which includes over 100 fields of information. Attachment B Sample Housing Rehabilitation Work Write-up, exemplifies the type of computerized Work Write-up which WFN personnel are able to prepare for eligible Cobb County clients. Without such a system, Cobb County would need at least one-two additional clerical positions to handle all the housing rehabilitation Work Write-ups and related documentation."

WFN's Contract The contract provided that WFN would:

"Conduct all necessary rehabilitation advisor activities, including, (a) application taking and screening, and (b) structure qualification, economic feasibility, and types of improvements necessary to meet minimum standards and general property improvements." (Section 6.18 of Attachment 1)

"... secure at his own expense, all personnel required in performing the services under this contract." (Section 6)

The above documents indicate that WFN was obligated to provide all rehabilitation inspections and work write-ups. As mentioned in the firm's proposal, WFN had developed a computerized system to document inspection results and to generate work write-up and cost estimates. The firm's marketing of the system in the RFP indicates WFN would run the system as part of WFN's contract price.

We also interviewed representatives of the only other company that submitted a competing proposal for the County's administrative contract. The representatives stated that they also interpreted the RFP to require rehabilitation inspection and work write-ups and that their proposed price included an amount for these services.

Auditee Comments

The County disagrees with our conclusion. County officials contend WFN's contract with the County required the firm to conduct all necessary Financial **Advisor** and Rehabilitation **Advisor** services. They said the County never intended that the contract include inspections and WFN never intended to provide these services under its administration contract. They believe a review of the number of units actually inspected and written up by the Housing Inspector evidences the impossibility of those tasks being performed by the Housing Coordinator (357 units serviced during the time period).

OIG Evaluation

The County's comments are not consistent with the wording in the RFP, WFN's proposal, WFN's contract, or with statements provided by the only other firm to submit a competing proposal. The County contends that the Housing Coordinator could not have possibly done the number of inspections performed by the contract inspector. WFN's contract required the firm to do the inspections. We did not say the inspections had to be done by the Housing Coordinator.

Recommendations

We recommend that you:

- 3A. Disallow the \$80,340 paid to the inspector and any additional payments of this type made since the date of our review, and require reimbursement to the HUD programs.
- 3B. Instruct the County to establish controls to prevent similar unnecessary payments in the future.

Finding 4 - Inadequate Monitoring of the HUD Program Administrator

The County did not adequately monitor WFN's performance under its contracts to administer HUD programs. As a result, the County was not aware that the administrator had awarded contracts without following competitive procedures and that there was a conflict of interest with some contracts.

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and achievement of performance goals. Grantee monitoring must cover each program, function or activity (24CFR 85.40 paragraph (a)).

County officials said the Assistant County Manager met with WFN's President at least once a month and obtained status reports. However, we found no evidence that the County had ever conducted a formal review of WFN's operations even though WFN has been the County's HUD program contract administrator since 1982.

In the summer of 1995, the County started an internal audit of WFN's operations but suspended the review because of ongoing reviews by the Department of Labor (DOL) and our office. However, the County's review originated from concerns raised by DOL, instead of actions initiated as part of a structured plan for monitoring WFN's performance.

We also noticed that the County's Finance Department did not provide written approval on invoices processed for WFN contract payments like it did for those submitted for payment by other County departments. The Director of Finance stated that while the department does not sign off on the WFN invoices, they do review them for proper account coding and to ensure that the amounts claimed are within budget. However, because the Finance Department did not sign the vouchers, there was no evidence to support the review.

At the time of our on site review, the Assistant County Manager reviewed and approved WFN's invoices for payment. WFN did not report to a particular Department Head. County officials stated that the Assistant County Manager wanted to be assured that WFN properly submitted claims and that the firm complied with its contract.

We identified certain non-compliances by WFN involving contracting and conflict of interest which we attribute in part to the County's inadequate monitoring of the firm's operations:

Contracts Awarded without Competition

WFN awarded contracts that obligated the use of HUD funds without the County exercising adequate oversight over WFN's procurement process. We identified two instances where WFN awarded contracts for rehabilitation inspection services with no evidence of competition or County review and approval. The contracts were for:

- Rehabilitation inspections for Cobb's CDBG Program for which we identified payments

of \$80,340.

- Rehabilitation inspections for the City of Marietta's CDBG Program for which we identified payments of \$32,500.

The only signatures present on the contracts were those of the two Housing Inspectors, WFN's President, and witnesses. No County official signed the agreements. County officials said that they operated with the understanding WFN had the authority to enter into such contracts on the County's behalf.

Conflicts of Interest

WFN's contract specified that neither the consultant, nor its agents, employees or subcontractors, presently had an interest, nor would acquire an interest, direct or indirect, which would conflict in any manner or degree with the performance of its service, or prevent the satisfactory performance of the Consultant's services (Paragraph 13 of the CDBG Contract). However, we noticed the following instances that involved conflicts of interest which the County should have detected and taken action to alleviate:

- (1) WFN hired a contract employee to supervise and coordinate the County's rehabilitation activities, as part of WFN's overall administrative contract. WFN also executed a separate contract with the individual to perform rehabilitation inspections and work write-ups for the City of Marietta. The County paid the inspector \$32,500 for Marietta's CDBG (\$28,500) and HOME (\$4,000) programs.

As WFN rehab coordinator, the inspector was responsible for monitoring subrecipient operations, which in the case of Marietta meant monitoring his own performance. We believe a conflict of interest existed. Furthermore, the practice defeats the controls intended by the monitoring process.

The County made direct payments for Marietta's housing rehabilitation costs for both the CDBG and HOME Programs, as opposed to disbursing amounts to Marietta for use in administering its program and making disbursements through its own accounts. This practice raises a question as to whether Marietta's rehabilitation program was truly separate from Cobb's rehabilitation program and whether there was a valid need for the separate inspection contract.

- (2) WFN hired a contract employee to supervise a DOL job training program. The individual also charged time to the CDBG funded SDA activity discussed in Finding 2. Furthermore, the employee was also involved with incorporating and served on the board of a community housing organization. Other WFN employees approved the organization as a HOME Community Housing Development Organization (CHDO) and approved the amount of funding to the CHDO. In our opinion, these relationships created a conflict of interest, which can result in favored treatment that conflict-of-interest provisions are designed to prevent.

Auditee Comments

Monitoring - The County disagrees that it did not adequately monitor WFN's performance under its contracts with the County. WFN reported to the County Manager's Office and works on a day to day basis with the Assistant County Manager as well as with other County Departments such as Purchasing, Finance and other departments responsible for CDBG funded projects.

Procurement - The County's past pattern and practice has authorized WFN to serve as its administrative agent in the day to day operation of CDBG program activities, including procurement of supplies, materials and services necessary to carry out the program. Upon notice that WFN could not provide proof that these rehabilitation inspection services were processed through proper procurement procedures, WFN was directed to immediately initiate a new procurement cycle.

Conflict of Interest - The County does not believe the Marietta inspector situation created a conflict of interest, but does realize a perception of a conflict of interest could occur. In 1995 the County asked that the inspection services be competitively bid. This process was completed and a new provider was chosen.

Cobb County does not agree that a conflict of interest exists regarding the CHDO (Cobb Housing, Inc.) and the WFN JTPA Program Director. At no time did she receive any financial remuneration for her efforts to create and maintain the CHDO. All Board members are non-paid members. The June 17, 1992 Federal Register seems to indicate that HUD considers that kind of participation on the board of non-profit organizations to be beneficial and should be encouraged.

OIG Evaluation Our conclusions remain unchanged.

Recommendations

We recommend that you require the County to:

- 4A. Establish, and implement a formal system for monitoring the performance of its HUD program administrator. The system should include procedures for conducting reviews and for follow up to resolve detected noncompliances.
- 4B. Establish controls to prevent conflicts of interest.
- 4C. Obtain the Finance Department's review of invoices submitted by the HUD program administrator just as it does for invoices submitted by other County departments.

We also recommend that you:

- 4D. Review and determine whether the Marietta CDBG Rehabilitation Program is a part of Cobb's program and thus does not warrant the separate inspections fees. As mentioned in finding 3, Cobb County's CDBG inspections are covered by WFN's CDBG administrative contract.

- 4E. Require repayment of the separate Marietta CDBG inspection fees (\$28,500) if you determine that the Marietta rehabilitation program is, in essence, run as part of Cobb's program.

SCHEDULE OF INELIGIBLE AND UNSUPPORTED COSTS

<u>Recommendation</u>	<u>Ineligible Costs</u> ³	<u>Unsupported Costs</u> ⁴
1C		\$405,999
1D		414,469
2A		112,832
3A	\$80,340	
4E	<u> </u>	<u>28,500</u>
Total	<u>\$80,340</u>	<u>\$961,800</u>

³ Costs not allowable by law, contract, HUD or local agency policies or regulations.

⁴ Unsupported amounts do not obviously violate law, contract, policy or regulation but warrant being contested for various reasons such as the lack of satisfactory documentation to support eligibility and HUD approval.

Distribution

Secretary's Representative, 4AS

Director, Community Planning and Development, 4AD

Field Comptroller, 4AF

Director, Accounting Division, 4AFF

Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)

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Cobb County Manager