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# AUDIT REPORT



## CITY OF IRONTON COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

IRONTON, OHIO

01-CH-243-1001

NOVEMBER 16, 2000

OFFICE OF AUDIT, MIDWEST  
CHICAGO, ILLINOIS



Issue Date November 16, 2000
Audit Case Number 01-CH-243-1001

TO: Lana J. Vacha, Director of Community Planning and Development,  
Ohio State Office

/signed/

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: City of Ironton  
Community Development Block Grant Program  
Ironton, Ohio

We completed an audit of the City of Ironton's Community Development Block Grant Program. The audit resulted from a complaint to our Hotline. The complainant's allegations were that the City misused Community Development Block Grant funds and did not follow proper procurement practices when awarding contracts paid with Block Grant funds. The complainant based his allegation that Block Grant funds were misused on information from HUD's 2020 Internet map which provides a general description and location of where HUD funds were spent. The objectives of our audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations were properly followed.

HUD's 2020 map did not accurately show the locations where HUD funds were used in the City of Ironton. Nonetheless, we found that the City did not follow HUD's, the State of Ohio's, and/or the City's own requirements regarding the use of HUD funds (Community Development Block Grant and HOME). We also found that the City and/or the Housing Standards Officer for the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Development Block Grant Program, did not properly administer the City's HUD funded rehabilitation activities.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (312) 353-7832.

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# Executive Summary

We completed an audit of the City of Ironton's Community Development Block Grant Program. The audit resulted from a complaint to our Hotline. The complainant's allegations were that the City misused Community Development Block Grant funds and did not follow proper procurement practices when awarding contracts paid with Block Grant funds. The complainant based his allegation that Block Grant funds were misused on information from HUD's 2020 Internet map which provides a general description and location of where HUD funds were spent. The objectives of our audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations were properly followed.

HUD's 2020 map did not accurately show the locations where HUD funds were used in the City of Ironton. Nonetheless, we found that the City did not follow HUD's, the State of Ohio's, and/or the City's own requirements regarding the use of HUD funds (Community Development Block Grant and HOME). We also found that the City and/or the Housing Standards Officer for the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Development Block Grant Program, did not properly administer the City's HUD funded rehabilitation activities.

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The City Did Not Ensure That Units Met Residential Rehabilitation Standards After Housing Assistance

The City of Ironton did not follow HUD's regulation, the State of Ohio's requirements, or the City's Community Housing Improvement Program policies to ensure assisted houses met the State's Residential Rehabilitation Standards. The City used \$35,376 of HUD funds to pay for housing rehabilitation work that was improperly performed or that was not provided. The City also did not include housing rehabilitation work in specifications for five houses. The Housing Standard's Officer for the Community Action Organization incorrectly certified that the housing rehabilitation services provided to seven houses met the State's Standards when they did not.

The City Provided Housing Assistance To Households That Exceeded The Income Guidelines

The City of Ironton did not follow HUD's regulation, the State of Ohio's Grant Agreements, and/or the City's requirements when it provided housing rehabilitation assistance to families whose incomes exceeded the income guidelines. The City: used \$38,934 to assist seven properties which were not occupied by low or moderate income families; lacked documentation to show that \$111,928 in housing assistance paid to 11 other households benefited low or moderate income individuals; and provided \$145,995 in totally deferred assistance to nine households when they had the ability to repay part of their housing assistance. The City failed to obtain income and/or expense documentation for six other households to determine if they had the ability to repay their housing rehabilitation assistance.

The City Did Not Sufficiently Safeguard \$58,353 In Housing Rehabilitation Work

The City of Ironton did not follow its requirements or the State of Ohio's Grant Agreements to sufficiently protect the housing rehabilitation work provided to houses in the Community Housing Improvement Program. The City provided \$58,353 (\$48,810 in Community Development Block Grant funds and \$9,543 of HOME funds) in housing assistance to four of 84 households reviewed without property hazard insurance and/or without recording mortgage liens, deed restrictions, or covenants on the assisted properties.

The City Needs To Establish Procedures And Controls To Prevent Conflicts Of Interest

The City of Ironton did not establish procedures and controls to prevent conflicts of interest in the award of housing rehabilitation assistance. The City improperly provided Community Development Block Grant funds for housing rehabilitation assistance when conflicts of interest existed.

The City Needs To Improve Its Contracting Process

The City of Ironton did not maintain an effective system of controls over its contracting process. The City failed to follow HUD's regulations, the State of Ohio's requirements, and/or the City's Charter for full and open competition regarding the procurement of housing rehabilitation services, demolition services, parks and recreation equipment, and administrative services. The City did not ensure that the specifications for the housing rehabilitation contracts showed the requested materials and/or services.

Recommendations

We recommend that the HUD's Ohio State Office Director of Community Planning and Development, in conjunction with officials from the State of Ohio, assure that the City implements controls to correct the weaknesses cited in this report. We also recommend the Office of Community Planning and Development ensures that the City takes appropriate action on all other concerns addressed in this report.

We presented our draft findings to the City's Mayor and HUD's staff during the audit. We held an exit conference with the City on August 21, 2000. The City disagreed that some of the cited housing rehabilitation work was improperly performed or not provided. However, the City agreed to have the housing rehabilitation corrected or indicated that the applicable contractor repaired the deficient rehabilitation work. The City pledged to provide documentation to support the use of HUD funds. The City disagreed that: housing assistance was provided to households that had the ability to repay their

assistance; it improperly provided assistance to units owned by the Ironton-Lawrence County Community Action Organization or relatives of a Community Action Organization's employee; and it violated the City's Charter regarding the award of the administration contracts to the Community Action Organization. The City indicated that a full response to the findings could not be made until a full review was completed.

We included excerpts of the City's comments with each finding (see Findings 1, 2, 3, 4, and 5). The complete text of the comments are in Appendix B with the exception of 25 attachments that were not necessary for understanding the City's comments. A complete copy of the City's comments with the attachments were provided to HUD's Ohio State Office Director of Community Planning and Development.

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# Table Of Contents

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Management Memorandum	i
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---

Executive Summary	iii
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---

Introduction	1
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## Findings

1	The City Did Not Ensure That Units Met Residential Rehabilitation Standards After Housing Assistance	3
---	--	---

2	The City Provide Housing Assistance To Households That Exceeded The Income Guidelines	13
---	---	----

3	The City Did Not Sufficiently Safeguard \$58,353 In Housing Rehabilitation Work	21
---	---	----

4	The City Needs To Establish Procedures and Controls To Prevent Conflicts of Interest	27
---	--	----

5	The City Needs To Improve Its Contracting Process	33
---	---	----

---

Management Controls	45
---------------------	----

---

Follow Up On Prior Audits	49
---------------------------	----



## Appendices

A Schedule Of Questioned Costs	51
B Auditee Comments	53
C Distribution	79

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# Introduction

The Community Development Block Grant Program was established by Title I of the Housing and Community Development Act of 1974. The objective of the Program is to provide grants to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. Maximum priority is given to activities that will benefit low or moderate income families, or aid in the prevention or elimination of slums and blight. Block Grant funds may also be used to meet other community development needs that present a serious and immediate threat to the health and welfare of the community.

The Housing and Community Development Act of 1974 was amended in 1981 to allow each State the option to administer Community Development Block Grant funds. If this option is exercised, HUD provides the State with Block Grant funds to be distributed to local governments that do not receive funds directly from HUD. Between October 1992 and June 2000, the City of Ironton received \$3,694,600 in Block Grant funds from the State of Ohio.

The City was organized under the laws of the State of Ohio. The City is governed by a Mayor and a seven-member City Council. The Mayor of the City is Robert Cleary. The City contracted with the Ironton-Lawrence County Community Action Organization to administer its Community Development Block Grant Program.

The records for the City's Block Grant Program are maintained at the City of Ironton's City Center and the Community Action Organization's office. The City Center is located at 301 South 3<sup>rd</sup> Street, Ironton, Ohio. The Community Action Organization's office is located at 305 North 5<sup>th</sup> Street, Ironton, Ohio.

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## Audit Objectives

Our audit objectives were to determine whether the City of Ironton properly used Community Development Block Grant funds and followed proper procurement practices when awarding contracts paid with Block Grant funds.

## Audit Scope And Methodology

We conducted the audit at HUD's Ohio State Office, the State of Ohio's Office of Housing and Community Partnerships, the City of Ironton's City Center, and the Ironton-Lawrence County Area Community Action Organization's office. We performed our on-site audit work between September 1999 and April 2000.

To determine whether HUD's rules and regulations were properly followed, we reviewed the City's: Community Development Block Grant and HOME Program Grant Agreements with the State; Community Housing Improvement Program policies (formerly the Comprehensive Housing Program); Block Grant Program administration contracts;

audited financial statements; Block Grant contracts for demolition services and parks and recreation equipment; and Community Housing Improvement Program participants' files. We also reviewed: HUD's and the State's files for the City; Section 731 of the Ohio Revised Code; the State's Handbooks for the Community Development Block Grant Program; and Title 24 of the Code of Federal Regulations Parts 85, 92, and 570.

We interviewed: HUD's staff; State and City officials; Community Action Organization's employees; City contractors; and Community Housing Improvement Program participants and contractors. In addition, our inspector inspected seven houses that received housing rehabilitation assistance through the City's Community Housing Improvement Program to determine whether the houses met the State's Residential Rehabilitation Standards. The seven houses were selected because the homeowners indicated in their responses to our questionnaire or through interviews we conducted, that their housing rehabilitation work was performed incorrectly or was not provided.

The audit covered the period October 1, 1991 to August 31, 1999. We extended our audit period as necessary. We conducted our audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the City's Mayor and the State's Deputy Director of Community Development for the Department of Development.

# The City Did Not Ensure That Units Met Residential Rehabilitation Standards After Housing Assistance

The City of Ironton did not follow HUD's regulation, the State of Ohio's requirements, or the City's Community Housing Improvement Program policies to ensure assisted houses met the State's Residential Rehabilitation Standards. The City used \$35,376 of HUD funds (Community Development Block Grant and HOME) to pay for housing rehabilitation work that was improperly performed or that was not provided. The City also did not include housing rehabilitation work in specifications for five houses. The Housing Standard's Officer for the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program, incorrectly certified that the housing rehabilitation services provided to seven houses met the State's Residential Rehabilitation Standards when they did not. The problems occurred because the Community Action Organization did not have sufficient procedures and controls over the Program to ensure houses met the State's Standards after they received housing rehabilitation assistance. The City also did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD funds were not efficiently and effectively used. HUD also lacks assurance that houses met the State's Standards after receiving housing rehabilitation assistance.

## HUD's Regulation

24 CFR, Subpart F, Part 92.251 requires housing rehabilitated with HOME funds to meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion.

## State's Requirements

Page 6 of the State of Ohio's Home Investment Partnership Program Grant Agreement effective August 1, 1998 with the City of Ironton states all projects and units assisted with HOME funds must meet the requirements set forth in 24 CFR Part 92 Subpart F. Page 3 of Attachment B for the Grant Agreement requires all rehabilitation work paid for with HOME funds to meet or exceed the State's Residential Rehabilitation Standards.

The State's Small Cities Community Development Block Grant Program Grant Agreement, page 4 of Attachment B, effective October 1, 1996 with the City of Ironton requires all rehabilitation work paid for with Block Grant funds to meet or exceed the State's Residential Rehabilitation Standards.

The State's Non-Participating Jurisdiction Housing Handbook, page 29, requires the City of Ironton to ensure all rehabilitation

work be done in accordance with the State's Residential Rehabilitation Standards.

City's Policies And Procedures

The City's Fiscal Years 1996 and 1998 Community Housing Improvement Program's Policies and Procedures, page 74, says the State's Residential Rehabilitation Standards will be utilized as the standards for repairs under the Homeowner Rehabilitation Program.

Sample Selection And Inspection Results

We selected a sample of seven of the 41 housing units that received housing rehabilitation funds through the City's Community Housing Improvement Program. We selected the seven houses to determine whether the City properly paid for housing rehabilitation work. Housing rehabilitation contracts were executed for the seven houses between October 1997 and January 1999. The seven houses were selected because the homeowners indicated in their responses to our questionnaire or through interviews we conducted, that their housing rehabilitation work was performed incorrectly or was not provided. The seven houses were inspected by our inspector between November 18, 1999 and November 24, 1999. Our inspector was only able to inspect the exterior of the house located at 3034 South 6<sup>th</sup> Street due to the homeowner being sick.

We provided the inspection results to HUD's Ohio State Office Director of Community Planning and Development and the City's Mayor.

HUD Funds Were Used To Pay For Rehabilitation Work That Was Improperly Performed Or Not Provided

The City used \$35,376 of HUD funds to pay for housing rehabilitation work that was improperly performed (\$24,714) or that was not provided (\$10,662). The improper work and/or the work that was not provided occurred at all seven houses that we inspected. The City provided \$105,196 in housing rehabilitation assistance to the seven houses. The incomplete work or the work not provided was 34 percent of the total HUD funding for the seven houses. The City recorded property liens against five of the seven houses for the housing rehabilitation that was incorrectly performed or not provided.

The following table shows the amount of work that was improperly performed or not provided for each house.

<i>Address of House</i>	<i>Work Improperly Performed</i>	<i>Work Not Provided</i>
<b>520 Etna Street</b>	\$9,795	\$4,475
<b>609 Lawrence Street</b>	4,765	432
<b>914 Walnut Street</b>	4,125	525
<b>1114 South 10<sup>th</sup> Street</b>	2,699	0
<b>3034 South 6<sup>th</sup> Street</b>	2,625	500
<b>305 Batham Lane</b>	525	100
<b>3024 South 4<sup>th</sup> Street</b>	180	4,630
<b>Totals</b>	<u>\$24,714</u>	<u>\$10,662</u>

The City of Ironton established its Community Housing Improvement Program to provide housing rehabilitation assistance to low or moderate income homeowners in the City. The housing assistance was intended to correct items that did not meet the State of Ohio's Residential Rehabilitation Standards. The Housing Standards Officer for the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer the Community Housing Improvement Program, was responsible for assuring that the housing rehabilitation work was provided in accordance with the housing rehabilitation contract and that it met the State's Standards.

Our inspector determined that the Community Action Organization's Housing Standards Officer did not assure that the housing rehabilitation work was performed correctly or even provided. The housing work that was performed incorrectly or that was not provided related to such items as electrical outlets improperly grounded or not installed, floors not level, loose paneling, improper installation of siding and heating systems, and poor coverage of paint. The following pictures show examples of housing rehabilitation work that was improperly performed or not provided.

## Finding 1

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There was a hole in the kitchen wall where the outlet was installed for the house at 914 Walnut Street.



The base molding was not installed in the kitchen of the house at 520 Etna Street.



The Community Action Organization's Housing Standards Officer was responsible for performing the housing rehabilitation inspections and authorizing payment to the contractors. He said he must have overlooked those items that we found to be improperly performed or not provided when he inspected the houses. The Housing Standards Officer incorrectly certified that the housing rehabilitation services provided to the seven houses through the City's Program met the State's Standards when they did not. The Director for the Community Action Organization's Community Development Department said no one from the Community Action Organization monitored the Housing Standards Officer's final inspections of the houses to ensure the housing rehabilitation work was completed according to the State's Standards.

The City did not monitor the Community Action Organization to ensure it administered the City’s Community Housing Improvement Program as required. As a result, HUD funds were not efficiently and effectively used.

The City Did Not Include Housing Rehabilitation Work In Contracts’ Specifications

The City did not include needed housing rehabilitation work in the specifications for five houses. The rehabilitation work was needed to correct items that did not meet the State’s Residential Rehabilitation Standards. The five houses were assisted under the City’s Homeowner Rehabilitation Program. The following table shows the items that needed to be corrected for each house.

Address of House	Items Needing Correction
<b>609 Lawrence Street</b>	<ul style="list-style-type: none"> <li>• Severe rotting of front porch ceiling.</li> <li>• Gutters not installed on front porch.</li> <li>• Tripping hazard at rear patio.</li> <li>• Tuck pointing of foundation.</li> </ul>
<b>3034 South 6<sup>th</sup> Street</b>	<ul style="list-style-type: none"> <li>• Large cracks in sidewalk at rear stairs that pose a tripping hazard.</li> </ul>
<b>914 Walnut Street</b>	<ul style="list-style-type: none"> <li>• Door trim not finished.</li> </ul>
<b>520 Etna Street</b>	<ul style="list-style-type: none"> <li>• Kitchen floor coming up.</li> <li>• Missing corner molding in kitchen.</li> <li>• Closet floor in bedroom not level.</li> </ul>
<b>305 Batham Lane</b>	<ul style="list-style-type: none"> <li>• Open and bad grounds for electrical fixtures in living room, kitchen, and bedrooms.</li> </ul>

The City had the necessary HUD funds to ensure the items that needed to be corrected to the State’s Standards were made. The following picture shows an example of the housing rehabilitation work that was not included in the contract specifications.



## Finding 1

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The contract specifications for the house located at 609 Lawrence Street did not include gutters for the front porch.



The Community Action Organization's Housing Standards Officer said he must have overlooked the needed housing rehabilitation work when he was preparing the work write-ups for the five houses. The City also did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD lacks assurance that houses met the State's Residential Rehabilitation Standards after receiving rehabilitation assistance.

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### Auditee Comments

[Excerpts paraphrased from the City's comments on our draft finding follow. Appendix B, pages 53 to 62, contains the complete text of the comments for this finding.]

The housing rehabilitation contracts are executed directly between the homeowners and the contractors. The City provides financial assistance to the homeowner through the Rehabilitation Loan/Grant Agreement. Under the Agreement, the homeowner contracts for the rehabilitation work with the Community Housing Improvement Program staff providing technical assistance throughout the contracting process.

### OIG Evaluation Of Auditee Comments

While the homeowners contract for the housing rehabilitation work, the City is required by HUD's regulation and the State of Ohio's requirements to ensure assisted houses meet the State's Residential Rehabilitation Standards. The City should ensure that the housing rehabilitation work is completed correctly. If the City is unable to ensure the

rehabilitation work is completed, then the City should reimburse its Community Housing Improvement Program from non-Federal funds the total amount of housing rehabilitation assistance that was provided to the applicable houses.

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Auditee Comments

Two of the seven houses, 1114 South 10<sup>th</sup> Street and 3024 South 4<sup>th</sup> Street, were not provided rehabilitation assistance but rather emergency repair assistance. As a result, the repair work was intended to address emergency repairs in accordance with the Community Housing Improvement Program's guidelines and was not intended to correct items that did not meet the State's Residential Rehabilitation Standards.

OIG Evaluation Of  
Auditee Comments

We agree that the houses at 1114 South 10<sup>th</sup> Street and 3024 South 4<sup>th</sup> Street were provided rehabilitation assistance to make emergency repairs. However, the City is required to ensure those repairs meet the State's Residential Rehabilitation Standards. The rehabilitation assistance to 1114 South 10<sup>th</sup> Street included the installation of a new furnace. The furnace was installed; however, the house was not energy efficient because of holes in the exterior walls. This allows cold air to enter the house. Thus, the City's use of HUD funds to install the furnace was not an efficient use of HUD funds and the homeowner cannot realize the full benefits of the housing assistance. In regards to the house at 3024 South 4<sup>th</sup> Street, the housing rehabilitation services were not provided as required by the rehabilitation contract. For example, the City paid the contractor to replace 600 square feet of the house's roof, but only 243 square feet of the roof was replaced. Therefore, the City used HUD funds to pay for housing rehabilitation work that was improperly performed or not provided.

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Auditee Comments

The finding shows that the Director of the Community Action Organization's Community Development Department said no one from the Organization monitored the Housing Standards Officer's final inspection of houses to ensure the housing rehabilitation work was completed according to the State's Standards. The statement should say that not all the housing rehabilitation work may be subject to an additional inspection upon completion. Houses are typically inspected during the course of the

work by other Community Action Organization staff as well as City inspectors for compliance with the City's Building Code. In addition, units are randomly selected and inspected by representatives from the State.

OIG Evaluation Of  
Auditee Comments

We agree that houses that receive rehabilitation assistance may be subject to inspections when the rehabilitation work is being conducted. However, the issue is whether the Community Action Organization monitored the Housing Standards Officer's final inspections of the houses to ensure the housing rehabilitation work was completed according to the State's Standards. The Organization's Director of Community Development said this was not done. Therefore, the Community Action Organization did not have sufficient procedures and controls over the Community Housing Improvement Program to ensure houses met the State's Standards after they received housing rehabilitation assistance. The City needs to establish procedures and controls to ensure assisted houses meet the State's Standards after receiving housing rehabilitation assistance as required by HUD's regulation, the State of Ohio's requirements, and the City's Program policies.

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Auditee Comments

Regarding the housing rehabilitation work that was performed incorrectly or not provided, corrective work was completed or is scheduled to be completed using non-Federal funds to ensure the houses meet the State's Residential Rehabilitation Standards.

OIG Evaluation Of  
Auditee Comments

The actions taken or planned by the City should ensure the housing rehabilitation work cited in this finding is completed correctly, if the work meets the State's Standards when completed.

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Auditee Comments

A full response to this finding cannot be made until the City and the Community Action Organization conduct a full investigation.

OIG Evaluation Of  
Auditee Comments

The City should: ensure that the housing rehabilitation work that was not included in the specifications for five houses is performed using non-Federal funds; and establish procedures and controls to monitor the applicable contractor, who administers the City's Community Housing

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Improvement Program, to ensure the contractor follows the Program's requirements.

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## Recommendations

We recommend that the Ohio State Office Director of Community Planning and Development, in conjunction with officials from the State of Ohio, assures that the City of Ironton:

- 1A. Ensures that the \$35,376 of housing rehabilitation work cited in this finding is completed correctly. If the City is unable to ensure the rehabilitation work is completed, then the City should reimburse its Community Housing Improvement Program from non-Federal funds the total amount of housing rehabilitation assistance that was provided to the applicable houses and release the applicable liens against the properties.
- 1B. Ensures that the housing rehabilitation work that was not included in the specifications for five houses is performed using non-Federal funds. If the City is unable to ensure the rehabilitation work is completed, then the City should reimburse its Community Housing Improvement Program from non-Federal funds the total amount of housing assistance that was provided to the applicable houses.
- 1C. Establishes procedures and controls to ensure assisted houses meet the State's Residential Rehabilitation Standards after receiving housing rehabilitation assistance as required by HUD's regulation, the State of Ohio's requirements, and the City's Community Housing Improvement Program Policies and Procedures.
- 1D. Establishes procedures and controls to monitor the applicable contractor, who administers the City's Community Housing Improvement Program, to ensure the contractor follows the Program's requirements.

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# The City Provided Housing Assistance To Households That Exceeded The Income Guidelines

The City of Ironton did not follow HUD's regulation, the State of Ohio's Grant Agreements, and/or the City's requirements when it provided housing rehabilitation assistance to families whose incomes exceeded the income guidelines. The City: used \$38,934 to assist seven properties which were not occupied by low or moderate income families; lacked documentation to show that \$111,928 in housing assistance paid to 11 other households benefited low or moderate income individuals; and provided \$145,995 in totally deferred assistance to nine households when they had the ability to repay part of their housing assistance. The City failed to obtain income and/or expense documentation for six other households to determine if they had the ability to repay their housing rehabilitation assistance. The problems occurred because the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program, lacked procedures and controls over the Program to ensure that only eligible individuals received housing rehabilitation services and that households repaid their housing assistance. Additionally, the City did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD funds were not used efficiently and effectively, and available funding assistance to eligible individuals was reduced.

## HUD's Regulation

24 CFR Part 570.208(a)(3) requires that an eligible Community Development Block Grant activity which provides or improves a permanent residential structure will, upon completion, be occupied by a low or moderate income household. If the structure contains two dwelling units, at least one is required to be occupied by a low or moderate income household. If the structure contains more than two dwelling units, at least 51 percent of the units are required to be occupied by low or moderate income households.

## State's Grant Agreements

The State of Ohio's Small Cities Community Development Block Grant Program Grant Agreements with the City of Ironton, page 6, require that the City comply with all applicable Federal, State, and local laws, regulations, directives, and guidelines regarding the use of Block Grant funds.

## City's Requirements

The City's Fiscal Years 1994 to 1998 Community Housing Improvement Program policies require that housing rehabilitation services assist low or moderate income homeowners or tenants of rental units.

The City’s Fiscal Year 1992 Comprehensive Housing Program policy says a totally deferred loan will be provided to homeowners with incomes less than the low income limit. A mixture of a deferred loan and a leveraged loan will be provided to households between the low and moderate income limits. The loan payment cannot exceed the difference between the household’s current monthly housing expenses and 35 percent of their monthly income. For the Fiscal Years 1994 to 1998 Community Housing Improvement Program, the City amended its policy so a homeowner’s monthly housing expense will not exceed 30 percent of their monthly income.

Page 107 of the City’s Fiscal Year 1996 Community Housing Improvement Program policy requires a low income landlord requesting rental rehabilitation assistance that cannot afford additional debt service be provided a totally deferred loan. All other landlords will be expected to match the deferred loan on a dollar-for-dollar basis.

The City Assisted Properties That Were Not Occupied By Low Or Moderate Income Individuals

The City provided \$38,934 in Community Development Block Grant funds to assist seven properties with housing rehabilitation services that were not occupied by low or moderate income persons. All seven properties were rental properties. The following table shows: the property addresses; when the assistance was awarded; the amount of tenants’ income that exceeded the required income guidelines; the percentage that the tenants’ income exceeded the required guidelines; and the amount of housing assistance provided.

<i>Household Address</i>	<i>Award Date</i>	<i>Amount Over Income</i>	<i>Percent Over Income</i>	<i>Assistance Amount</i>
1641 Bessemer Street	5/10/95	\$ 1,923	10.1	\$7,500
604 North 4 <sup>th</sup> Street	6/28/95	14,244	85.3	7,515
604 ½ North 4 <sup>th</sup> Street	6/28/95	22,615	123.2	6,484
2119 South 2 <sup>nd</sup> Street	6/30/95	958	5.0	4,165
1724 South 6 <sup>th</sup> Street	11/13/98	12,377	67.4	5,402
1912 South 7 <sup>th</sup> Street	11/13/98	19,980	95.1	3,640
1912 ½ South 7 <sup>th</sup> Street	11/13/98	2,106	11.5	<u>4,228</u>
Total				<u>\$38,934</u>

Five of the seven properties were occupied when the City provided the housing rehabilitation services. The City’s files for the five properties contained documentation showing that the tenants’ incomes exceeded the required

guidelines. However, the City still assisted the five properties. The City’s files did not contain similar documentation for the other two properties. Therefore, we obtained income documentation from the properties’ owner that showed the properties were not occupied by low or moderate income tenants as required.

The City Did Not Obtain Documentation To Show Assisted Households Met The Income Requirements

The City lacked documentation to show that \$111,928 (\$102,385 of Community Development Block Grant and \$9,543 of HOME funds) of housing rehabilitation assistance benefited low or moderate income individuals. The following table shows: the addresses of the properties; the type of housing assistance provided; when the assistance was awarded; and the amount of housing assistance provided.

Property Address	Type of Assistance	Award Date(s)	Assistance Amount
204 Chestnut Street	Rental	11/8/95	\$7,500
401 and 403 Etna Street	Rental	5/30/95 and 7/10/95	9,868
306 1/2 South 3 <sup>rd</sup> Street	Rental	3/31/95	20,820
1113 South 3 <sup>rd</sup> Street	Rental	6/19/95	6,478
1115 South 3 <sup>rd</sup> Street	Rental	6/19/95	3,551
1825 South 4 <sup>th</sup> Street	Homeowner	4/28/98	6,145
3034 South 6 <sup>th</sup> Street	Homeowner	2/22/98 and 11/24/98	23,620
515 Heplar Street	Rental	11/13/98	6,751
2439 South 10 <sup>th</sup> Street	Rental	11/13/98	10,700
1722 South 6 <sup>th</sup> Street	Rental	11/13/98	7,305
2125 South 7 <sup>th</sup> Street	Rental	11/13/98	9,190
<b>Total</b>			<b><u>\$111,928</u></b>

Five of the 11 properties were occupied when the City provided the housing rehabilitation services. However, the City provided the services without obtaining documentation to show the assistance benefited low or moderate income individuals. During the audit, we requested the owners of the 11 properties to provide documentation that they or their tenants were low or moderate income individuals. None of the owners could provide us with the requested documentation.

The property located at 306 1/2 South 3<sup>rd</sup> Street consisted of three rental apartments. Apartment one was occupied by a



low or moderate income individual. However, the income for the residents of apartment two exceeded the required income guidelines and the City lacked documentation to show that apartment three was occupied by a low or moderate income individual.

The City Provided Assistance To Households That Had The Ability To Repay Their Assistance

The City provided \$145,995 in totally deferred housing rehabilitation assistance to nine households that had the ability to repay their housing assistance. The City’s Community Housing Improvement Program policies required households to repay their housing assistance based upon their income and housing expenses. The following table shows: the addresses of the households; when the assistance was awarded; the monthly payments the households had the ability to repay; and the amount of housing assistance provided.

Household Address	Award Date	Affordable Monthly Payment	Assistance Amount
516 South 7 <sup>th</sup> Street	9/30/93	\$314	\$16,950
1203 South 7 <sup>th</sup> Street	4/19/94	249	21,240
625 South 9 <sup>th</sup> Street	3/10/94	135	18,800
626 South 10 <sup>th</sup> Street	11/2/93	154	18,465
916 South 10 <sup>th</sup> Street	6/20/94	246	18,430
924 Walnut Street	1/11/94	97	9,543
118 North 6 <sup>th</sup> Street	2/17/95	30	13,145
713 South 10 <sup>th</sup> Street	2/17/95	39	19,275
616 Lawrence Street	10/31/97	116	10,147
Total			<u>\$145,995</u>

All nine homes were occupied when the City provided the housing rehabilitation services. The City’s files for the nine households contained income and expense documentation that showed the households had the ability to repay their housing assistance. However, the City provided the totally deferred housing rehabilitation assistance without requiring the households to repay the assistance they received.

The City Did Not Have Documentation To Determine Whether Households Could Repay Their Assistance

The City provided totally deferred housing rehabilitation assistance to six properties without obtaining income and/or expense documentation to determine whether the properties’ owners had the ability to repay the housing assistance. The City’s Community Housing Improvement Program policies required homeowners and landlords to repay their housing assistance based upon their income and housing expenses. The following table shows: the property

addresses; the type of housing assistance provided; when the assistance was awarded; and the amount of housing assistance provided.

<i>Property Address</i>	<i>Type of Assistance</i>	<i>Award Date(s)</i>	<i>Assistance Amount</i>
<i>614 Lawrence Street</i>	Homeowner	10/31/97	\$11,435
<i>614 1/2 Lawrence Street</i>	Rental	10/31/97	4,872
<i>1825 South 4<sup>th</sup> Street</i>	Homeowner	4/28/98	6,145
<i>3034 South 6<sup>th</sup> Street</i>	Homeowner	2/22/98 and 11/24/98	23,620
<i>2125 South 7<sup>th</sup> Street</i>	Rental	11/13/98	4,595
<i>2439 South 10<sup>th</sup> Street</i>	Rental	11/13/98	5,350
<i>Total</i>			<u>\$56,017</u>

The six properties were occupied when the City provided the totally deferred housing rehabilitation assistance. During the audit, we requested the owners of the six properties to provide documentation to show their income and/or housing expenses. None of the owners could provide us with the requested documentation.

The Administering Entity Was Not Aware Of HUD's And The City's Requirements

The Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program, lacked procedures and controls over the Program to ensure that only eligible individuals received housing rehabilitation services and that households repaid their housing assistance when necessary. The Director of the Community Action Organization's Community Development Department was not aware of HUD's and the City's requirements regarding income eligibility and the repayment of housing assistance. The City also did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD funds were not used efficiently and effectively, and available funding assistance to eligible individuals was reduced.

**Auditee Comments**

[Excerpts paraphrased from the City's comments on our draft finding follow. Appendix B, pages 63 to 65, contains the complete text of the comments for this finding.]

The Community Action Organization reviewed a sample of Community Housing Improvement Program files to determine whether they had income documentation to show the assisted households met the required income guidelines.

Income documentation was found for either the owners and/or the tenant of 614, 614 ½ and 616 Lawrence Street and 3034 South 6<sup>th</sup> Street. The Organization will review the remaining Program files for income documentation and will obtain documentation from the households, if necessary.

OIG Evaluation Of  
Auditee Comments

We did not question the City's use of HUD funds to provide housing assistance to 614, 614 ½ and 616 Lawrence Street due to a lack of income documentation. Instead, we questioned the City's use of HUD funds to these properties because the City lacked documentation to determine whether the properties' owner had the ability to repay their housing assistance. The income documentation provided for the homeowner of 3034 South 6<sup>th</sup> Street was dated July 30, 1997. However, the homeowner's housing assistance application to the City was dated October 14, 1998. The timing difference between the income documentation provided by the Community Action Organization and the application date to the City was more than fourteen months. Therefore, the City lacks assurance that the income documentation accurately reflects the Program participant's income at the time she received the housing assistance. The City should provide documentation to show the income of the homeowner at the time of application. The City should also provide documentation to support the housing rehabilitation assistance provided to the remaining properties benefited low or moderate income individuals. If the City cannot provide the necessary documentation, then the City should reimburse its Program from non-Federal funds for the applicable amount.

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Auditee Comments

Some of the households that received housing rehabilitation assistance through the City's Community Housing Improvement Program were low income households. The City's policy was that low income households were not required to repay their housing assistance except upon the sale of the property.

OIG Evaluation Of  
Auditee Comments

The City provided \$145,995 in totally deferred housing rehabilitation assistance to nine households that had the ability to repay their housing assistance. The City's Community Housing Improvement Program policies required households to repay their housing assistance based upon their income and housing expenses. Specifically, page 79 of the City's Fiscal

Years 1996 and 1998 Community Housing Improvement Program policies say the type of assistance for the Homeowner Rehabilitation Program depends on the affordability of the household. The City defines affordability when less than 30 percent of the household income is spent on housing expenses. Page 84 of the City’s policy also says the primary determination as to the type of financial assistance to be received is the affordability of additional debt service that can be undertaken by the applicant while still being affordable to that household. Page 107 of the City’s Fiscal Year 1996 Program policy requires a low income landlord requesting rental rehabilitation assistance that can afford additional debt service is expected to match the deferred loan on a dollar-for-dollar basis. Therefore, the City used HUD’s funds and needs to reimburse its Program \$145,995 from non-Federal funds for the housing rehabilitation assistance provided to the nine households that had the ability to repay their assistance.

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**Auditee Comments**

A full response to this finding cannot be made until the City and the Community Action Organization conduct a full investigation.

**OIG Evaluation Of Auditee Comments**

The City should establish procedures and controls to ensure HUD’s regulation, the State of Ohio’s Grant Agreements, and/or the City’s Program policies regarding income guidelines and the repayment of assistance based upon household income and housing expenses are followed. The City should also provide the necessary documentation to support the use of HUD funds or reimburse its Program from non-Federal funds.

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**Recommendations**

We recommend that the Ohio State Office Director of Community Planning and Development, in conjunction with officials from the State of Ohio, assures that the City of Ironton:

- 2A. Establishes procedures and controls to ensure households that receive housing rehabilitation assistance meet HUD’s regulation, the State of Ohio’s Grant Agreements, and/or the City’s Community Housing Improvement Program policies regarding the income guidelines and the repayment

of assistance based upon their income and housing expenses.

- 2B. Reimburses its Community Housing Improvement Program \$38,934 from non-Federal funds for the housing rehabilitation assistance improperly provided to the seven households that were not low or moderate income.
- 2C. Provides documentation to support the \$111,928 in housing rehabilitation assistance provided to the 11 properties benefited low or moderate income individuals. If the City cannot provide the necessary documentation, then the City should reimburse its Community Housing Improvement Program from non-Federal funds for the applicable portion of the \$111,928 amount.
- 2D. Reimburses its Community Housing Improvement Program \$145,995 from non-Federal funds for the housing rehabilitation assistance improperly provided to the nine households that had the ability to repay their assistance.
- 2E. Provides income and/or expense documentation to support the \$56,017 in housing rehabilitation assistance provided to the six properties. If the City cannot provide the documentation to show the owners of the six properties lacked the ability to repay their assistance, the City should reimburse its Community Housing Improvement Program from non-Federal funds for the applicable portion of the \$56,017 amount.

## The City Did Not Sufficiently Safeguard \$58,353 In Housing Rehabilitation Work

The City of Ironton provided \$58,353 (\$48,810 in Community Development Block Grant funds and \$9,543 of HOME funds) in housing assistance to four of 84 households reviewed without property hazard insurance and/or without recording mortgage liens, deed restrictions, or covenants on the assisted properties. The problems occurred because the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program, lacked procedures and controls over the Program to ensure property hazard insurance and/or mortgage liens, deed restrictions, or covenants were placed on the assisted properties. Additionally, the City did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD's funds were not used efficiently and effectively.

### City's Requirements

The Fiscal Years 1996 and 1998 Community Housing Improvement Program's policies require that when the City awards a deferred loan under the Program, the City will record a lien to ensure the intent of the housing assistance. The purpose of the lien is to ensure the benefit of the assistance is not transferred to the monetary benefit of the applicant.

The Fiscal Years 1994 to 1998 Terms and Conditions for Owners Accepting Housing Rehabilitation Assistance through the Community Housing Improvement Program require that the owner obtain hazard insurance on the property to be rehabilitated. The owner must maintain the insurance throughout the term of the housing rehabilitation loan.

### State's Grant Agreements

The State of Ohio's Home Investment Partnership Program Grant Agreement, effective August 1, 1998, with the City of Ironton, page 5 of Attachment B, requires that the City be able to enforce the terms of the assistance through an agreement which may include a lien on the real property, deed restriction, or covenant on the land. In addition, the agreement must specify remedies for breach of the provisions of the agreement. Page 6 of the Agreement also requires that the City comply with all applicable Federal, State, and local laws, regulations, directives, and guidelines regarding the use of HOME funds.

The State's Small Cities Community Development Block Grant Program Grant Agreements with the City of Ironton, page 6, require that the City comply with all applicable Federal,

State, and local laws, regulations, directives, and guidelines regarding the use of Block Grant funds.

The City Did Not Sufficiently Protect \$58,353 In Assistance

The City provided \$48,810 in Community Development Block Grant funds and \$9,543 of HOME funds to four households without evidence of property hazard insurance and/or without recording mortgage liens, deed restrictions, or covenants on the assisted properties.

The City did not ensure that three households had hazard insurance or that two households had mortgage liens, deed restrictions, or covenants recorded for the full amount of the housing assistance against the assisted properties. These omissions applied to a total of four households. The four households were:

Household Address	Assistance Amount	Fiscal Year Awarded	Property Hazard Insurance?	Lien, Restriction, Or Covenant Recorded?
520 Maple Avenue	16,968	1994	No	Yes
918 Adams Street	16,665	1994	No	Yes
520 Etna Street	1,100	1996	Yes	No
3034 South 6 <sup>th</sup> Street	<u>23,620</u>	1996/1998	No	No(1)
<b>Total</b>	<b><u>\$58,353</u></b>			
(1)-\$2,990 in housing assistance not secured by a lien, restriction, or covenant.				

We contacted the three homeowners to determine whether they had hazard insurance. The homeowners of 918 Adams Street and 3034 South 6<sup>th</sup> Street said they did not have hazard insurance at the time of the housing assistance. As of February 10, 2000, the two homeowners also lacked hazard insurance on the assisted properties. The homeowner of 520 Maple Avenue was unable to provide documentation as of February 7, 2000 that she had hazard insurance or that she had insurance when she received the housing assistance.

The City did not record a mortgage lien, deed restriction, or covenant for the rehabilitation assistance provided to two households. Liens, restrictions, or covenants were not obtained for change orders totaling more than \$1,000 for the houses provided rehabilitation assistance through the Fiscal Years 1996 and 1998 Program. The City's requirements and the State of Ohio's Grant Agreements required the City to

record a property lien, deed restriction, or covenant to ensure the intent of the assistance.

The problems occurred because the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program, lacked procedures and controls over the Program to ensure hazard insurance and/or mortgage liens, deed restrictions, or covenants were placed on the assisted properties. The Director of the Community Action Organization's Department of Community Development said he was not aware that the City required homeowners to obtain hazard insurance. The Director also said the Community Action Organization did not have procedures to require homeowners to sign a lien for the full amount of the housing assistance. The City did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD's funds were not used efficiently and effectively.

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#### Auditee Comments

[Excerpts paraphrased from the City's comments on our draft finding follow. Appendix B, pages 66 to 69, contains the complete text of the comments for this finding.]

The Community Action Organization discussed with legal counsel the fact that mortgages filed at the loan closings did not include change orders which occur during the housing rehabilitation process. Counsel provided an open-ended mortgage for execution at the time of the initial contract signing that is being used to secure future housing rehabilitation assistance. The mortgages will be placed for the maximum assistance amount allowed under the Community Housing Improvement Program. Therefore, any future change orders should be secured under the mortgage.

#### OIG Evaluation Of Auditee Comments

The implementation of an open-ended mortgage to secure the additional housing rehabilitation assistance should ensure that the full amount of housing assistance provided to Program participants is sufficiently secured. However, the City needs to ensure that the mortgages accurately reflect the housing assistance provided, not the maximum amount of assistance allowed by the Program.



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Auditee Comments

If required by HUD or the State of Ohio, the City will ensure hazard insurance is secured for properties that receive housing rehabilitation assistance under the Community Housing Improvement Program. However, this action would likely eliminate some of the lowest income individuals from receiving assistance because those individuals will not be able to afford the necessary hazard insurance.

OIG Evaluation Of  
Auditee Comments

The City is required by the State's Grant Agreements to follow all local laws, regulations, directives, and guidelines regarding the use of HOME and/or Block Grant funds. The City's Terms and Conditions for Owners Accepting Housing Rehabilitation Assistance through the Community Housing Improvement Program require that the owner obtain hazard insurance on the property to be rehabilitated. The owner must maintain the insurance throughout the term of the housing rehabilitation loan. The City did not ensure that three households had hazard insurance placed on the assisted properties. The City should ensure properties that receive housing rehabilitation assistance under the Program have the necessary insurance. The City can amend its Program requirement to eliminate the need for owners to obtain hazard insurance; however, such action could expose owners to financial hardship in the event of a fire or natural disaster. For owners who may not be able to afford the required hazard insurance, the City should consider providing financial assistance to cover the cost of the insurance.

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Auditee Comments

The Community Action Organization filed additional mortgages to reflect the change orders to: 514 South 10<sup>th</sup> Street; 802 South 7<sup>th</sup> Street; 609, 614, 614 ½ and 616 Lawrence Street; 2439 South 10<sup>th</sup> Street; 914 Walnut Street; and 305 Batham Lane. The Organization will pursue the remaining properties that lack a mortgage lien, deed restriction, or covenant to secure the mortgage assistance.

The Community Action Organization searched the Community Housing Improvement Program files and made inquiries of the property owners to determine whether the assisted properties had hazard insurance. To date, the Organization determined that 512 South 8<sup>th</sup> Street, 918 Adams Street, and 1825 South 4<sup>th</sup> Street had insurance.

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OIG Evaluation Of  
Auditee Comments

Based upon the documentation provided by the City, we adjusted our finding to reflect the assisted properties that lacked hazard insurance and/or a mortgage lien, deed restriction, or covenant for the full amount of the housing assistance. However, the documentation regarding the hazard insurance for 918 Adams Street showed that the insurance was terminated. The City needs to provide documentation that the property has active hazard insurance during the term of the housing rehabilitation loan as required.

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Auditee Comments

The City is unable to respond to the remaining properties that lack hazard insurance and/or a mortgage lien, deed restriction, or covenant on the assisted properties until a full investigation is conducted. A formal response will be developed at a later date.

OIG Evaluation Of  
Auditee Comments

The City should ensure the assisted properties cited in this finding have the required hazard insurance and/or mortgage liens, deed restrictions, or covenants for the full amount of the housing assistance or reimburse its Program from non-Federal funds for the applicable amount.

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Recommendations

We recommend that the Ohio State Office Director of Community Planning and Development, in conjunction with officials from the State of Ohio, assures that City of Ironton:

- 3A. Establishes procedures and controls to ensure households that receive housing rehabilitation assistance meet its requirements and the State of Ohio's Grant Agreements regarding hazard insurance, mortgage liens, deed restrictions, or covenants on the land.
- 3B. Records mortgage liens, deed restrictions, or covenants for the full amount of the housing assistance on the two properties as required by its requirements and the State of Ohio's Grant Agreements. If the City is unable to record a mortgage lien, deed restriction, or covenant on any of the two properties, the City should reimburse its Community Housing Improvement Program from

non-Federal funds for the applicable portion of the \$4,090 amount.

- 3C. Requires the three properties that received housing rehabilitation assistance without property hazard insurance to obtain the necessary property hazard insurance as required by its requirements and the State of Ohio's Grant Agreements. If any of the three properties cannot obtain property hazard insurance, the City should reimburse its Community Housing Improvement Program from non-Federal funds for the applicable portion of the \$57,253 amount.

## The City Needs To Establish Procedures And Controls To Prevent Conflicts Of Interest

The City of Ironton did not establish procedures and controls to prevent conflicts of interest in the award of housing rehabilitation assistance. The City used Community Development Block Grant funds for housing rehabilitation assistance when conflicts of interest existed. The Department of Community Development's Director for the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program (formerly the Comprehensive Housing Program), said he was not aware of HUD's conflict of interest requirements. Additionally, the City did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD funds were not used efficiently and effectively, and available housing assistance to eligible individuals was reduced.

### HUD's Regulation

24 CFR Part 570.611 states no employee of the recipient, or of any designated public agencies, or subrecipients that receive funds, who exercise or have exercised any functions or responsibilities with respect to Community Development Block Grant activities may obtain a personal or financial interest or benefit from a Block Grant assisted activity, or have an interest in any contract or subcontract either for themselves or those they have family or business ties, during their tenure or for one year thereafter. HUD may grant an exception only after the recipient provides the following: (1) a disclosure of the nature of the conflict, accompanied by an assurance that there was public disclosure of the conflict and a description of how the public disclosure was made; and (2) an opinion from the recipient's attorney that the exception would not violate State or local law.

### State's Grant Agreements

Page 5 of the State of Ohio's Small Cities Community Development Block Grant Program Agreements, effective July 1, 1994 and October 1, 1996, with the City require that no subcontractor who exercises any functions or responsibilities in connection with the review or approval of the work completed will acquire any personal interest, direct or indirect, which is incompatible or in conflict with the discharge or fulfillment of the functions or responsibilities with respect to the completion of the housing rehabilitation work.

The City Improperly Provided Assistance To Units Owned By Community Action Organization

The City provided \$43,941 in Community Development Block Grant funds for housing rehabilitation assistance to two rental properties owned by the Community Action Organization. The two properties received rehabilitation assistance through the City’s Community Housing Improvement Program. The following table shows the addresses of the properties, when the assistance was awarded, and the housing assistance provided.

<i>Property Address</i>	<i>Award Date(s)</i>	<i>Assistance Provided</i>
<b>863 and 863 ½ North 5<sup>th</sup> Street</b>	11/27/95 and 11/13/98	\$21,475
<b>318 Elm Street</b>	10/30/95 and 11/13/98	22,466
<b>Total</b>		<u><b>\$43,941</b></u>

The City awarded \$15,000 in housing rehabilitation assistance for 863 and 863 ½ North 5<sup>th</sup> Street in November 1995. In October 1995, the City awarded \$7,500 in rehabilitation assistance for 318 Elm Street. The City awarded additional housing rehabilitation contracts for the properties in November 1998 since it did not have sufficient funds in 1995 to complete the rehabilitation work at the two properties.

The City’s use of Community Development Block Grant funds to rehabilitate the two rental properties was improper because the Community Action Organization administered the City’s Community Housing Improvement Program, thus creating an identity-of-interest. The State of Ohio’s Grant Agreements prohibit the use of Block Grant funds when conflicts of interest exist. Therefore, the housing rehabilitation assistance to the Community Action Organization’s properties violated the Grant Agreements.

The Director of the Community Action Organization’s Department of Community Development said he did not believe the rehabilitation of the rental properties was a conflict of interest. He believed the Community Action Organization was maintaining and operating the properties for the City. However, the Community Action Organization owned the units and received the benefits from the rental proceeds.

The City Improperly Provided Housing Assistance To Relatives Of A Community Action Organization Employee

The City awarded housing assistance when conflicts of interest existed. The City provided \$41,006 in Community Development Block Grant funds for housing rehabilitation assistance to three houses owned by relatives of the Housing Specialist for the Community Action Organization. The rehabilitation assistance was provided through the City’s Comprehensive Housing Program (now the Community Housing Improvement Program). The following table shows the addresses of the three houses, the relationship to the Housing Specialist, when the assistance was awarded, and the housing assistance provided.

<i>House Address</i>	<i>Relationship To Housing Specialist</i>	<i>Award Date</i>	<i>Assistance Provided</i>
<i>720 South 9<sup>th</sup> Street</i>	Sister	5/13/91	\$14,466
<i>1012 South 9<sup>th</sup> Street</i>	Mother	3/12/91	14,025
<i>615 South 7<sup>th</sup> Street</i>	Mother-In-Law	7/17/91	<u>12,515</u>
<b>Total</b>			<u><b>\$41,006</b></u>

When the three households received their assistance, the Housing Specialist was the Program Operations Officer who took applications for the Program. In this capacity, the Housing Specialist had control over who received the benefits of the Program by accepting or rejecting applications submitted. HUD’s regulation 24 CFR Part 570.611 prohibits relatives of individuals who exercise any function over an activity from receiving assistance without an exception from HUD. As of June 20, 2000, the Housing Specialist is involved in the administration of the City’s Community Development Block Grant funds.

The Director of the Community Action Organization’s Community Development Department said an exception was not obtained from HUD, the conflicts were not publicly disclosed, and he was not sure whether a legal opinion was obtained. The Director was unable to provide documentation of a legal opinion regarding the conflicts of interest.

Conflicts Of Interest Existed Because The City Lacked Procedures And Controls Over The Program

The problems occurred because the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program, lacked procedures and controls over the Program to ensure conflict of interest requirements were

followed. The Director of the Community Action Organization's Department of Community Development said he was not aware of HUD's regulation. Additionally, the City did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD funds were not used efficiently and effectively, and available housing assistance to eligible individuals was reduced.

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**Auditee Comments**

[Excerpts paraphrased from the City's comments on our draft finding follow. Appendix B, pages 70 to 73, contains the complete text of the comments for this finding.]

The City disagrees that the use of housing rehabilitation assistance to the properties owned by the Community Action Organization was improper. The properties were acquired, owned, operated, and maintained for the City to benefit low and moderate income tenants. Thus, the tenants benefited from the housing assistance. The Community Action Organization is a non-profit corporation; therefore, there was not a personal interest with respect to the completion of the housing rehabilitation work. The work was completed in accordance with the Community Housing Improvement Program's requirements.

**OIG Evaluation Of  
Auditee Comments**

The use of Block Grant funds to rehabilitate the rental properties owned by the Community Action Organization was improper because the Organization administered the City's Community Housing Improvement Program, thus creating a conflict of interest. The State's Grant Agreements prohibit the use of Block Grant funds when conflicts of interest exist. Therefore, the housing rehabilitation assistance to the Community Action Organization's properties violated the Grant Agreements. The City should reimburse its Program from non-Federal funds for the housing rehabilitation assistance that was misused as required by the State.

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**Auditee Comments**

The City disagrees that housing assistance was improperly provided to relatives of a Community Action Organization employee. The assistance was provided after consulting with the State who directed us to check with our attorney. Based upon our recollection, the attorney determined that the employee did not act in a decision making capacity and

an exception could be made to any potential conflict of interest. Therefore, providing assistance to the employee's relatives would be considered as an exception to the conflict of interest requirements. The biggest problem regarding this situation is the availability of documentation. It does not appear that we have all the necessary documentation showing the actions taken regarding this matter.

We provided the Office of Inspector General with a June 28, 1993 letter from the State of Ohio to HUD's Ohio State Office (formerly the Columbus Area Office) showing that the matter was previously investigated by the State. The State determined that neither the employee nor the Community Action Organization acted improperly in this matter. Therefore, it appears the City took proper steps when providing assistance to the three households in question.

OIG Evaluation Of  
Auditee Comments

Relatives of the Housing Specialist for the Community Action Organization owned the three houses. When the households received their assistance, the Specialist took applications for the Program. In this capacity, the Housing Specialist had control over who received the benefits of the Program by accepting or rejecting applications submitted. HUD's regulation 24 CFR Part 570.611 prohibits relatives of individuals who exercise any function over an activity from receiving assistance.

We agree that the City provided the State's June 1993 letter. However, the State did not approve the City's use of Community Development Block Grant funds to provide rehabilitation assistance to the Housing Specialist's relatives. The City is required to ensure that Block Grant funds are used according to all Program requirements.

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Auditee Comments

A full response to the conflict of interest deficiencies cannot be made until the City and the Community Action Organization conduct a full investigation.

OIG Evaluation Of  
Auditee Comments

The City should establish procedures and controls to ensure that HUD's regulation and the State of Ohio's Grant Agreements regarding conflicts of interest are followed.



Recommendations

We recommend that the Ohio State Office Director of Community Planning and Development, in conjunction with officials from the State of Ohio, assures that the City of Ironton:

- 4A. Establishes procedures and controls to ensure that HUD's regulation and the State of Ohio's Grant Agreements regarding conflicts of interest are followed.
  
- 4B. Reimburses its Community Housing Improvement Program from non-Federal funds for the \$84,947 in housing rehabilitation assistance that was improperly provided to the properties with conflicts of interest as required by 24 CFR Part 85.51 or the State of Ohio's Grant Agreements.

# The City Needs To Improve Its Contracting Process

The City of Ironton did not maintain an effective system of controls over its contracting process. The City failed to follow HUD's regulations, the State of Ohio's requirements, and/or the City's Charter for full and open competition regarding the procurement of housing rehabilitation services, demolition services, parks and recreation equipment, and administrative services. The City did not ensure that the specifications for the housing rehabilitation contracts showed the requested materials and/or services. The problems occurred because the City's Council and top management did not exercise their responsibilities to implement effective contracting controls. As a result, HUD lacks assurance that its funds were used efficiently and effectively, and the City's procurement transactions were not subject to full and open competition.

## HUD's Regulations

24 CFR Part 85.36(b)(9) requires grantees and subgrantees to maintain records sufficient to detail the significant history of a procurement, such as the rationale for the method of procurement and the basis for the contract price. Part 85.36(c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition.

24 CFR Part 85.36(d)(1) requires that when procurement by small purchase is used, price or rate quotations will be obtained from a sufficient number of qualified sources.

24 CFR Part 85.36(d)(2) requires that when the sealed bid method is used, bids are to be publicly solicited and a firm-fixed-price contract awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest price. The sealed bid method is the preferred method for procuring construction services.

24 CFR Part 85.36(d)(3) says the technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. If this method is used: requests for proposals will be publicized; proposals will be solicited from a sufficient number of qualified sources; and awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

State Of Ohio's  
Requirements

24 CFR Part 85.36(b)(3) states no employee, officer, or agent of the grantee or subgrantee will participate in the selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when: the employee, officer, or agent, any member of his immediate family, his or her partner, or an organization which he is employed by, or is about to be employed, has a financial or other interest in the firm selected for award.

Prior to March 30, 1999, Section 731.14 of the Ohio Revised Code required city contracts in excess of \$10,000 to be awarded through competitive bidding. When competitive bidding is required, notice shall be published for not less than two consecutive weeks in a newspaper of general circulation within the city. The bids will be opened and read publicly by the city's clerk at the time, date, and place specified in the advertisement to bidders or specifications.

The State's Grant Agreements with the City of Ironton required the City to comply with 24 CFR Part 85.

The State's Non-Participating Jurisdiction Housing Handbook, page 3, required the City to ensure that housing rehabilitation specifications contain a detailed scope of work, quantity of materials or area to be treated, quality of materials, and method of installation. Page 4 of the Handbook required the City to ensure that at least three bids or cost estimates were requested and obtained on all rehabilitation work. In limited instances, acceptance of a single bid is permitted, if it is determined that the bid is reasonable (within 10 percent of the staff's cost estimate). Page 16 of the Handbook says when the City procures the rehabilitation contractor, the procedures set forth in 24 CFR Part 85.36 will apply.

Page 10, Chapter 12, of the State's Community Development Block Grant Small Cities Program Handbook required that fair and open competition be met in the award of administrative services contracts. Open-ended contracts are not permissible. Page 11 of the Handbook says to ensure that competition will continue and the work under the contract reflects market and competitive prices, requests for proposals will be prepared and distributed by the City

and multi-year contracts will be limited to a three-year duration.

#### City's Requirements

Article II of the City's Charter prohibits members of the City Council from being interested in the profits or compensation of any contract, job, work, or service for the City. Any contract in which a member is or becomes interested in will be voided.

#### The City Did Not Ensure Three Bids Were Obtained For The Award Of Housing Rehabilitation Contracts

The City did not follow the State of Ohio's Non-Participating Jurisdiction Housing Handbook regarding the award of housing rehabilitation services. The City's Community Housing Improvement Program (formerly the Comprehensive Housing Program) participants awarded 87 rehabilitation contracts for 82 households between March 1993 and January 1999. Of the 87 contracts, the City used \$930,074 in HUD funds (Community Development Block Grant and HOME) to pay for the housing rehabilitation services. The State's Housing Handbook required the City to ensure the award of the rehabilitation contracts were conducted through full and open competition. However, the contract awards were not subject to full and open competition.

The City did not ensure that three bids were received for 63 of the 87 (72 percent) housing rehabilitation contracts awarded. The 63 contracts totaled \$667,030 and were awarded between March 1993 and November 1998. The State's Non-Participating Jurisdiction Housing Handbook required the City to ensure three bids were received for all housing rehabilitation services contracts awarded. However, the City's Community Housing Improvement Program participants only solicited bids from at least three contractors for 27 of the 63 contracts. The City allowed Program participants to request and receive only one bid for the remaining 36 contracts.

In addition, 20 of the 36 single bid contracts lacked a cost estimate from the Housing Standards Officer for the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program. Cost estimates are a necessary tool for the City to ensure that bids for housing rehabilitation services are reasonable. Without a cost estimate, HUD and the City lack assurance that the costs of the services were reasonable.

The City should assure a sufficient number of bids are solicited to reasonably expect responses from at least three bidders. This would normally entail the solicitation of bids from more than three contractors. If fewer than three bids are received, the City should check the bids against the cost estimate and if the bids are within reason, award the housing rehabilitation contract. If the bids are not within reason, the City should rebid for the housing rehabilitation services.

The City's Procurement Of Services And Equipment Was Not Subject To Full and Open Competition

The City did not follow HUD's or the State's requirements to publicly advertise the procurement of services and equipment. The City awarded 32 contracts totaling \$168,886 between January 1993 and November 1998. The contracts related to housing rehabilitation services, demolition services, and parks and recreation equipment. HUD's regulation and the State's requirements required the City to award the contracts through full and open competition. However, the contract awards were not subject to full and open competition.

The City awarded four housing rehabilitation services contracts, 27 demolition contracts, and one parks and recreation equipment contract using sealed bids and firm-fixed-price contracts. Since the City procured the services and equipment and used the sealed bid method to award the contracts, the City was required by HUD's regulation and the State's requirements to publicly advertise the 32 contracts. However, the City did not publicly advertise the contracts.

The City Did Not Follow The State Law Regarding The Procurement Of Services And Equipment

The City did not publicly advertise five contracts that exceeded \$10,000 each. The City awarded four housing rehabilitation services contracts and a recreation equipment contract. The five contracts totaled \$101,526 and were awarded between April 1993 and November 1998. The City was required by State law to publicly advertise the five contracts since they exceed \$10,000. The advertisement was to occur for not less than two consecutive weeks in a newspaper of general circulation within the City.

The City's Small Purchases Did Not Meet HUD's Regulation

The City obtained services and equipment through small purchase procedures without obtaining quotations from a sufficient number of qualified sources as required by HUD's regulation. Thirty-six small purchases were made between April 1993 and May 1999 totaling \$41,693. HUD's Ohio State Office of Community Planning and Development

defines a sufficient number of qualified sources as three or more. The City obtained only one or two quotes for each of the small purchases. Thus, the City was unable to show that the cost of the housing rehabilitation services, demolition services, and equipment was reasonable.

Contract Specifications  
Did Not Detail The  
Required Services Or  
Materials

The City did not ensure that the contract specifications for housing rehabilitation services detailed the required services and/or materials. The Housing Standards Officer for the Community Action Organization prepared the contract specifications for the Community Housing Improvement Program's housing rehabilitation contracts. The State's Non-Participating Jurisdiction Housing Handbook required contract specifications to outline the rehabilitation work necessary to ensure that assisted houses met the State's Residential Rehabilitation Standards when completed. However, the Housing Standards Officer's contract specifications did not detail the scope of work, the quantity and quality of materials, and the method of installation.

HUD's Construction Analysts reviewed 35 contract specifications for housing rehabilitation services provided through the City's Community Housing Improvement Program to determine whether the cost of the services was reasonable. The Construction Analysts were unable to provide a cost estimate because the contract specifications did not provide such items as: the type of materials to be used; length of runs for electrical wiring; size of material to be replaced or installed; sizes, type, and style of windows to be replaced; length, size, material, and type of piping to be installed; type of paint to be used; preparation of surfaces before painting; and the type, style, size, and number of kitchen cabinets to be installed. Without detailed contract specifications, HUD and the City lack assurance that housing rehabilitation services were reasonable or addressed all items that needed to be repaired.

The City Did Not Properly  
Procure Its Planning  
Services

The City did not follow HUD's regulation or the State's requirements regarding the procurement of planning services for the City's Community Development Block Grant Program. Between 1992 and 1998, the City paid the Lawrence Economic Development Corporation \$22,900 to provide planning services for the City's Block Grant Program. The City did not sign a contract with the Economic Development Corporation outlining the scope of services or the time period

for the services to be provided. The Community Action Organization's Director of Community Development said he thought the City could obtain the planning services without competition since the Economic Development Corporation was considered part of the City. However, the Executive Director of the Lawrence Economic Development Corporation said the Corporation was not part of the City. HUD's regulation and the State's requirements required the City to obtain the planning services through full and open competition.

The City did not issue a Request for Qualifications or a Request for Proposal to obtain the planning services. A Request for Qualifications is used to determine whether a contractor has the necessary skills to provide the required services. A Request for Proposal is used to obtain cost estimates from qualified contractors. The City did not maintain records to detail the significant history of the procurement process, such as the rationale for the method of procurement or the basis for the services.

Administration Contracts  
Were Not Properly  
Procured

The City did not properly procure its contracts with the Community Action Organization. In July 1999, the City signed an open-ended contract with the Ironton-Lawrence County Area Community Action Organization to administer the City's Community Development Block Grant Program. The City also awarded similar contracts to the Community Action Organization between April 1981 and July 1999. HUD's regulation and the State's requirements required the City to award its administrative services contracts through full and open competition. The State's Community Development Block Grant Small Cities Program Handbook prohibited the award of open-ended contracts. However, the City awarded an open-ended contract to the Community Action Organization without full and open competition.

The City did not issue a Request for Qualifications or a Request for Proposal to obtain the administrative services for its Block Grant Program. The Community Action Organization's Director of Community Development said the City did not competitively procure the services. He said HUD approved the City's initial contract with the Community Action Organization; however, he could not provide any documentation of HUD's approval. In addition, HUD's Ohio State Office of Community Planning and Development did not

have any documentation that it approved the Community Action Organization's initial contract with the City.

In addition, the City's award of the July 1999 contract to the Community Action Organization violated HUD's regulation and the City's Charter regarding conflicts of interest. A former City Councilman was hired by the Community Action Organization in June 1998. The former Councilman proposed and voted for the Community Action Organization to administer the City's Block Grant Program in 1999. HUD's regulation and the City's Charter prohibited the Councilman from being involved in the contract award to the Community Action Organization. The Charter requires that any contract which a Council member is interested in will be voided.

Procurement Problems Existed Because The City Lacked Procedures And Controls Over The Program

The City's failure to adhere to required contracting procedures occurred because the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Development Block Grant Program, lacked procedures and controls over the Program. The Director of the Community Action Organization's Department of Community Development said he either misunderstood or was not aware of HUD's or the State's procurement requirements. The City's Mayor said he was not aware of HUD's regulation regarding conflicts of interest. Additionally, the City did not monitor the Community Action Organization to ensure it administered the Program as required. As a result, HUD lacks assurance that its funds were used efficiently and effectively, and the City's procurement transactions were not subject to full and open competition.

## Auditee Comments

[Excerpts paraphrased from the City's comments on our draft finding follow. Appendix B, pages 74 to 78, contain the complete text of the comments for this finding.]

The problems cited with the procurement procedures appear to relate to the number of bids received and/or the availability of cost estimates to ensure contracts were reasonable and awarded through full and open competition. Many of the questioned contracts were from the Fiscal Years 1992 and 1994 Program. It appears that the minimum of three contractors were solicited to bid on the housing rehabilitation services; however, not all of those contractors submitted a bid. Cost estimates used to



determine the reasonableness of the bids were not published during the bidding process. Beginning with the Fiscal Year 1996 Program, the City changed its procurement procedures to encourage all potential contractors to submit a bid. The changes have already addressed many of the issues relating to the procurement requirements and controls for the rehabilitation services.

OIG Evaluation Of  
Auditee Comments

Of the 63 contracts awarded without three bids, 12 were awarded during the City's 1996 Program after only one bid was solicited. Thus, the changes made by the City during the Fiscal Year 1996 Program did not ensure that three bids were received for all housing rehabilitation services contracts as required by the State. The City should assure a sufficient number of bids are solicited to reasonably expect responses from at least three bidders.

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Auditee Comments

The City can exceed the minimum small purchase requirements by requesting more than three contractors to submit quotes using the sealed bid format. The City feels that by exceeding the small purchase requirements, it can be assured that the costs are reasonable and without any appearance of collusion.

OIG Evaluation Of  
Auditee Comments

We agree that the City can exceed the small purchase requirements by soliciting sealed bids. When this method is used, the City is required to follow 24 CFR Part 85.36(d)(2). When the City obtains goods or services using the small purchase procedures, it is required to follow 24 CFR Part 85.36(d)(1). The City did not obtain quotations from a sufficient number of qualified sources as required. Thirty-six small purchases were made between April 1993 and May 1999 totaling \$41,693. The City obtained only one or two quotes for each of the small purchases. The City needs to establish procedures and controls to ensure that the procurement of small purchases meet HUD's regulation.

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Auditee Comments

The City feels that some of the information in the Community Housing Improvement Program's Contracting Specification Book, which shows material types and standards, were not fully considered by HUD's Construction Analyst. The Book is provided to contractors and is part of both the bidding and contracting documents.

The Book also acts as a supplement to the contract specifications.

The Community Action Organization has already undertaken steps beginning with the Fiscal Year 1998 Program to expand staffing and expertise regarding contract specifications. Staff is undergoing additional Program training through the State. In addition, the Community Action Organization hired additional certified staff in such areas as heating systems. The City is prepared to review its controls and procedures relating to contract specifications and make any changes needed to help assure the reasonableness of the rehabilitation services.

#### OIG Evaluation Of Auditee Comments

The City did not ensure that the contract specifications for housing rehabilitation services detailed the required services and/or materials. The specifications did not provide such items as: the type of materials to be used; length of runs for electrical wiring; size of material to be replaced or installed; sizes, type, and style of windows to be replaced; length, size, material, and type of piping to be installed; type of paint to be used; preparation of surfaces before painting; and the type, style, size, and number of kitchen cabinets to be installed. In addition, the City's Contracting Specification Book did not sufficiently provide the necessary information on the requested materials. Without detailed contract specifications, HUD and the City lack assurance that housing rehabilitation services were reasonable or addressed all items that needed to be repaired.

The actions taken or planned by the City to improve its contract specifications process for the housing rehabilitation services should improve the process if the specifications meet the requirements of the State's Non-Participating Jurisdiction Housing Handbook.

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#### Auditee Comments

The Program administration contracts with the Community Action Organization were awarded according to the Ohio Compliance Supplement. The Supplement does not require the City to formally publish and accept bids for the administrative services. Only supplies and materials that exceed the City's bid limit must be competitively awarded.

OIG Evaluation Of  
Auditee Comments

In regards to the conflict of interest by a former City Councilman, the City does not believe that any conflict exists. Therefore, any contract or grant applications that the former Councilman endorsed and voted for are legal and binding. The City's Charter states that no member of the Council shall be interested in the profits or endorsements of any contract, job, work, or service for the City. The former Councilman did not profit from the contract between the City and the Community Action Organization.

HUD's and the State's guidelines required the City to award its administrative services contracts through full and open competition. The State's Community Development Block Grant Small Cities Program Handbook prohibited the award of open-ended contracts. However, the City awarded an open-ended contract to the Community Action Organization without full and open competition. The Ohio Compliance Supplement referenced by the City was issued by the State Auditor's Office and its purpose is to incorporate significant new or revised State laws. The Compliance Supplement does not allow the City to violate other requirements concerning the procurement of administrative services.

The City's award of the July 1999 contract to the Community Action Organization violated HUD's regulation and the City's Charter regarding conflicts of interest. 24 CFR Part 85.36(b)(3) states no employee, officer, or agent of the grantee or subgrantee will participate in the selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Article II of the City's Charter prohibits members of the City Council from being interested in the profits or compensation of any contract, job, work, or service for the City. Any contract in which a member is or becomes interested in will be voided. A former City Councilman was hired by the Community Action Organization in June 1998. The former Councilman proposed and voted for the Community Action Organization to administer the City's Block Grant Program in 1999. The City should terminate its contract with the Community Action Organization as required by the City's Charter

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**Auditee Comments**

A full response to the procurement deficiencies cannot be made until the City and the Community Action Organization conduct a full investigation. Once this is completed, the City will implement changes to the Program that are necessary to assure that Federal, State, and local requirements are followed.

**OIG Evaluation Of  
Auditee Comments**

Based upon the actions planned by the City, its procurement process should be improved if the actions are fully implemented.

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**Recommendations**

We recommend that the Ohio State Office Director of Community Planning and Development, in conjunction with officials from the State of Ohio, assures that the City of Ironton:

- 5A. Establishes procedures and controls to ensure that the procurement of housing rehabilitation services, demolition services, parks and recreation equipment, and administrative services meet HUD's regulations, the State of Ohio's requirements, and the City's Charter.
- 5B. Establishes procedures and controls to ensure that the contract specifications for housing rehabilitation services meet the requirements of the State of Ohio's Non-Participating Jurisdiction Housing Handbook.
- 5C. Terminates its contract with the Ironton-Lawrence County Area Community Action Organization as required by Article II of the City's Charter.

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# Management Controls

In planning and performing our audit, we considered the management controls of the City of Ironton in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of the organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Management Controls

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

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

## Significant Weaknesses

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

- Program Operations.

The City: (1) did not ensure that units met the State of Ohio's Residential Rehabilitation Standards after they

received housing assistance; (2) failed to ensure that assisted properties were occupied by low or moderate income families and provided totally deferred assistance to households when they had the ability to repay part of their housing assistance; (3) provided housing assistance to households without property hazard insurance and/or without recording mortgage liens, deed restrictions, or covenants on the assisted properties; (4) did not establish procedures and controls to prevent conflicts of interest in the award of housing rehabilitation assistance; and (5) failed to ensure that its Council and top management exercised their responsibilities to implement effective contracting controls (see Findings 1, 2, 3, 4, and 5).

- Compliance with Laws and Regulations.

The City did not follow HUD's regulations, the State of Ohio's requirements, and/or their own policies to ensure that: (1) assisted houses met the State's Residential Rehabilitation Standards; (2) only low or moderate income families received housing rehabilitation services and that households repaid part of their housing assistance when they were able; (3) property hazard insurance and/or mortgage liens, deed restrictions, or covenants were placed on assisted properties; (4) conflicts of interest did not exist in the award of housing rehabilitation assistance; (5) full and open competition existed regarding the procurement of housing rehabilitation services, demolition services, parks and recreation equipment, and administrative services; and (6) the specifications for housing rehabilitation contracts showed the requested materials and/or services (see Findings 1, 2, 3, 4, and 5).

- Safeguarding Resources.

The City: (1) misused \$35,376 of HUD funds (Community Development Block Grant and HOME) to pay for housing rehabilitation work that was improperly performed or that was not provided; (2) improperly used \$38,934 to assist seven properties which were not occupied by low or moderate income families; (3) lacked documentation to show that \$111,928 in housing assistance paid to 11 other households benefited low or moderate income individuals; (4) improperly provided \$145,995 in totally deferred assistance to nine households when they had the

ability to repay part of their housing assistance; (5) failed to obtain income and/or expense documentation for six other households to determine if they had the ability to repay their \$56,017 in housing rehabilitation assistance; (6) misused \$58,353 in housing assistance for four households without property hazard insurance and/or without recording mortgage liens, deed restrictions, or covenants on the assisted properties; and (7) improperly provided \$84,947 in housing rehabilitation assistance when conflicts of interest existed (see Findings 1, 2, 3, and 4).



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# Follow Up On Prior Audits

This is the first audit of the City of Ironton's Community Development Block Grant Program by HUD's Office of Inspector General. The latest single audit for the City covered the fiscal year ending December 31, 1998. The report contained two findings. None of the findings related to the City's Block Grant Program.

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# Schedule Of Questioned Costs

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A	\$ 35,376	
2B	38,934	
2C		\$111,928
2D	145,995	
2E		56,017
3B	4,090	
3C	57,253	
4D	84,947	
Total	<u>\$366,595</u>	<u>\$167,945</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by sufficient documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require future 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.

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# Auditee Comments

March 14, 2000

Heath Wolfe,  
Assistant District Inspector General  
U.S. Dept. Of Housing and Urban Development  
Office of Inspector General for Audit, Midwest  
Ralph H. Metcafe Federal Building  
77 West Jackson Boulevard, Suite 2646  
Chicago, Illinois 60604-3507

RE: Response to HUD IG Draft Audit Finding of 1/31/2000

Dear Mr. Wolfe:

As the Mayor for the City of Ironton, I provided the above referenced draft findings and reports to Ralph Kline of the Ironton Lawrence County Community Action Organization, Department of Housing and Community Development. I ask Mr. Kline to review the draft finding and reports as the contracting agency for the City of Ironton and to provide comment to the City. Mr. Kline response is outlined in the correspondence to my office dated 3/14/2000 as attached. Therefore, as the Mayor for the City, I would ask that you recognize those comments as comments made on behalf of the City of Ironton.

Should you have any questions or wish discuss any of these issues further, please give me a call at (740)532-3833.

Sincerely,

/signed/

Robert Cleary,  
Mayor

cc. Bill Graves, OHCP  
Ralph Kline, CAO

March 14, 2000

Mayor Robert Cleary  
City of Ironton  
301 S. Third Street  
Ironton, Ohio 45638

RE: Response to HUD IG Draft Audit Finding of 1/31/2000

Dear Mayor Cleary:

On the part of the Ironton Lawrence County CAO, Department of Housing and Community Development, I would like to respond to the above referenced HUD IG draft finding and report to the City of Ironton that was shared with us by your office as contracting entity for the City. This response reflects only comments to those items where there appear to be known discrepancies based upon opinions and information referenced in the reports. However, this response is not considered as a full response to the findings and report. A full response can not be made by our office until such time that full access to records and additional investigations into the various matters can be made.

**Issue: "Sample Selection and Inspection Result"** states that the "City executed housing rehabilitation contracts for the seven houses between October 1997 and January 1999." It should be noted that rehabilitation contracts are executed directly between the respective homeowners and the contractors. The City, via the Ironton Lawrence CAO, provides financial assistance to the homeowner through the Rehabilitation Loan/Grant Agreement. Under this agreement, the homeowner is to contract with the contractor for the rehabilitation work with the Program providing technical assistance throughout the contracting process.

**Issue: "HUD Funds Were Used To Pay For Rehabilitation Work That Was Improperly Performed Or Not Provided":**

It was stated within the draft findings that "The housing assistance was intended to correct items that did not meet the State of Ohio's Residential Rehabilitation Standards." It should be noted that two of the seven structures (1114 South 10th Street and 3024 South 4th Street) identified were not provided as "rehabilitation assistance" but rather as "emergency repair assistance." As a result, repair work was intended to address the repairs that were identified at that time as emergency in accordance to the emergency repair guidelines and was not "... intended to correct items that did not meet the State of Ohio's Residential Rehabilitation Standards."

In addition, it was stated that "The Director of Community Action Organization's Community Development Department said no one from Community Action Organization monitored the Housing Standards Officer's final inspection of houses to ensure the housing rehabilitation work was completed according to the State's Standards" This statement should be

clarified to reflect a response that "not all jobs may be subject to an additional inspection upon completion." However, homes are typically inspected during the course of the work by other CAO staff as well as City inspectors for compliance with the City Building Permits. In addition, units are randomly selected and inspected by representatives from the State of Ohio.

This office is unable to respond to each of the individual items stated as either "Work Improperly Performed" or "Work Not Provided" until we can fully investigate each item. This investigation will be utilized to determine; 1. A review of Residential Rehabilitation Standards and other applicable standards to determine requirements at the time in which work was performed, 2. A review of the case files to determine what was specified within the respective work write ups, field notes, contracts, change orders to reflect work expected of the contractor, 3. A review of file information to determine if there were any known changes in conditions of the work beyond the control of the program from the time of contract completion. A response will be formulated for each of the items after full investigation can be completed and a determination can be made. It should be noted, however, that these items were just made known to the Program by the above referenced January 31, 2000 letter to the City. These issues have been made from solicitations made of the homeowners by this audit rather than directly by the homeowner through the Program's formal complaint system which is identified to, and acknowledged by, each of the program applicants as part of their application process.

Should you have any questions or need any additional information, please feel free to discuss these issues with me further.

Sincerely,

/signed/

Ralph W. Kline,  
Community Development Director

cc. Bill Graves, OHCP



July 14, 2000

Heath Wolfe,  
Assistant District Inspector General  
U.S. Dept. Of Housing and Urban Development  
Office of Inspector General for Audit, Midwest  
Ralph H. Metcafe Federal Building  
77 West Jackson Boulevard, Suite 2646  
Chicago, Illinois 60604-3507

RE: Response to HUD IG Draft Audit Finding of 1/31/2000

Dear Mr. Wolfe:

As the Mayor for the City of Ironton, I provided the above referenced draft findings and reports to Ralph Kline of the Ironton Lawrence County Community Action Organization, Department of Housing and Community Development. I asked Mr. Kline, of the contracting agency for the City of Ironton, to review the draft findings and reports and to provide comments to the City. Mr. Kline's response is outlined in the correspondence to my office dated 7/14/2000 as attached. Therefore, as the Mayor for the City, I would ask that you recognize those comments as being made on behalf of the City of Ironton.

Should you have any questions or wish to discuss any of these issues further, please give me a call at (740)532-3833.

Sincerely,

/signed/

Robert Cleary,  
Mayor

cc. Bill Graves, OHCP  
Ralph Kline, CAO

July 14, 2000

Mayor Robert Cleary  
City of Ironton  
301 S. Third Street  
Ironton, Ohio 45638

Re: Response to HUD IG Draft Audit Finding of 1/31/2000

Dear Mayor Cleary:

On behalf of the Ironton Lawrence County CAO, Department of Housing and Community Development, I would like to respond to Mr. Bowen's request for a more detailed response to the above referenced Draft Audit Finding. This response is supplemental to our letter dated March 14, 2000, and will only address each of the individual questioned items of work. I am utilizing the attached spread sheet provided by Mr. Bowen detailing each of these questionable items regarding the individual items. This response is being formulated based on information that we have been able to secure from files and site visits to date. However, this response is not considered as a full and final response to the findings and report. A full response cannot be formulated by our office until such time that a full and final audit report is provided to us.

With regards to the response to the individual items of work, we have added a column to the above referenced spreadsheet utilizing a response code system, as attached.

Should you have any questions or need any additional information, please feel free to discuss these issues with me further.

Sincerely,

/signed/

Ralph W. Kline,  
Community Development Director

cc: Bill Graves, OHCP

Attachment

**7/14/2000  
Response Notes**

- Code** **A.** Corrective work has already been completed as of the date of this response by the contractor at the contractor's expense.
- B.** Proposes corrective work to be completed by the contractor but not yet completed as of the date of this response.
- C.** Additional work already completed as of the date of this response in order to meet RRS standards at the expense of the local program.
- D.** Proposes additional work to be completed to meet RRS standards at the expense of the local program but not yet completed as of the date of this response.
- E.** Other with referral to a specific note of response.

**Response Notes:**

E-S.1: Follow up inspection and review of files show that the floors were braced and are structurally sound. The surface of the floors was prepared to allow for installation of new floor covering. It is the opinion of this office that the floors do meet RRS standards as described in Section 2.2.1; "floors shall provide a reasonably flat and horizontal surface to the interior of the dwelling." It should be noted in the commentary of the RRS standards in connection with flooring that "OHCP" does not expect floors to be made completely level. (See Attached Exhibit 1.)

E-S.2: Based on our office's inspection, the heating vents in both the kitchen and bathroom #1 were adjusted to the elevated floor level. (See Exhibit 2 showing the location of those vents.)

E-S.3: Review of information on file shows that the trim on the bathroom door was secured upon completion of the job. Based on a current inspection of the unit, it appears that maintenance of the unit is an issue within the household. However, the contractor has agreed to return to the job and reinstall the trim at no cost.

E-S.4: Both the door and trim in bedroom #1 were finished and in place upon reinspection of the unit. (See photos in Exhibit 3). No additional work appears to be needed.

E-S.5: In review of our files and reinspection of the roof, the work as called for (\$350.00) appears to be justified. The roof was shimmed, made sound, and underlayment sheathing put into place before roof replacement. The roof as shown

in the photo (Exhibit 4) appears to meet RRS in that it is sound, functional, and level (as defined as being a reasonably flat and horizontal surface).

E-S.6: Review of our files show that the handrails were stabilized upon completion of the contract. It is probable that the current condition is partially resultant from current abuse. However, the contractor is willing to re-stabilize the handrails again.

E-F.1: It should be noted that this job was an emergency repair only. The condition of the house would not allow for a complete repair to bring the house to meet State RRS standards. The household contained family members that were of frail health. One emergency was to repair very poor flooring in the bathroom. A second repair consisted of replacing a furnace that had gone out leaving the family without any heat.

With regards to not being level and being spongy, a review of the videos show that the flooring was braced and underlayment was installed to level the floor prior to installation of vinyl flooring. After completion, the video shows the floor to be sound and level according to RRS definition. It is possible that the current condition could be a result of either termites or further separation of joists and sills. This could result in the sponginess and the separation and curling of the vinyl flooring. Since videos show the work completed as an emergency repair job only, and the fact that the current conditions are likely resultant from other conditions within the structure that were not addressed by the emergency repair, the local program does not agree with your determination that the work was improperly performed.

E-F.2: The furnace was installed to address a health and safety situation that was created when the Fletcher's former heating unit became inoperable. Since there was illness in the family, the program replaced the heating unit only. At the date of inspection, that furnace appeared to continue to be operational and functional. A totally separate item of work, holes in the walls, was not addressed as part of the emergency repair. It appears that given the structural condition of the house, the problems with the walls could not be permanently addressed.

E-P.1: Based on our reinspection of the fascia on the Potter job, all fascia appeared to be in place as evidenced within the photos attached as Exhibit 5. In order to take any action on this item, we would need further clarification as to the problem.

E-P.2: Based on our reinspection, concrete splash blocks were put into place on the job. The program will contract to bring in additional fill, leveling, and seeding for the sunken area.

E-P.3: Based on our recent inspection, a two-outlet GFI receptacle was installed. (See the photo in Exhibit 6.) Change Order #1, which is in question, specifically

calls for “1” in quantity with 2 outside weatherproof outlets. (See Exhibit 7 for copy of Change Order #1).

E-B.1: On this job it was originally intended to utilize the prior floor furnace vent as a cold air return for the new forced air furnace. However, the new furnace utilized a new cold air return and the contractor covered the old floor furnace space with flooring underlayment for \$25.00. Although the program does not feel that this is a hazard or in violation of RRS standards, we have agreed to contract for covering the questioned area with either vinyl or carpet flooring of the owner’s choice for an additional \$50.00. In conferring with the property owner as to this decision, the owner requested that they would like to utilize the \$50.00 allowance in combination with their own funds to provide new carpet for the entire living room area. The new carpeting is scheduled to be laid on August 7, 2000.

E-B.2: The receptacle outlet was readjusted by the contractor to make it more flush to the wall. In addition, trim was added around the electrical box by the contractor. (See the photo in Exhibit 8).

E-B.3: Upon reviewing our files, it appeared that the door to the bathroom was initially installed correctly. Upon reinspection of the door, it appeared as though the hinges had been bent. The contractor did return and straighten the hinges. (See the photo in Exhibit 9).

E-B.4: Upon reinspection of Burkes unit, it was confirmed that five receptacles were installed by the contractor in the room known as Bedroom #1. (See Exhibit 10 showing pictures of each of the five receptacles.) All wall receptacles were tested as being grounded.

In addition, the contractor has returned to the unit and moved the smoke detector beyond the 8 inches from the wall to meet RRS standards. (See Exhibit 11 for the photo evidencing movement of the smoke detector.

E-B.5: The Program has provided for the contractor to provide trim around the door for Bedroom #2. This work has been completed and is shown by the photograph in Exhibit 12.

E-B.6: Upon reinspection of the unit, it was confirmed that there were four receptacles installed in the room known as Bedroom #2. All receptacles were tested as being grounded. (See photographs of each of the four receptacles in Exhibit 13). The same as Bedroom #1, the contractor did reinstall the smoke detector so that there was a minimum of 8 inches from the wall to meet RRS standards.

E-B.7: Upon reinspection of the unit, it was determined that one GFI receptacle was installed in the laundry room. The receptacle was installed with a GFI breaker

in the electrical box as recommended for receptacles used for washers. The contractor did return and did install a second GFI receptacle in the laundry room.

E-B.8: Upon reinspection of the unit, the foundation vent was in place on the unit. (See the photo in Exhibit 14.)

E-E.1: Upon reinspection of the unit, the kitchen floor did appear to be level in accordance to RRS definition. The work did appear to be in place in accordance to contract. The location of any soft spot was unable to be determined. We would need additional clarification prior to taking any additional action. (See photo in Exhibit 15).

E-E.2: Although access has been limited as to the reinspection of this unit, it is the feeling of the local program that the closet does currently meet the RRS definition of level and is functional without any hazards. Therefore, we don't feel additional work to level the closet floor is justified.

E-E.3: Upon reinspection of the unit and review of our records it was found that one splash block was installed. Another appears to have been installed and was later uninstalled by the property owner and is currently at the site. One splash block was change ordered out in Change Order #4 to redirect into an existing drain tile. Two splash blocks appeared to be missing but it was undetermined as to whether or not they were initially installed. It is the expectation of the program that the contractor return and install splash blocks at these two locations.

With regards to the two splash blocks that were indicated as being overpaid, it appears that upon arriving at the site, the gutters and down spouts were reconfigured and perhaps reduced the number of down spouts and the need for the initial estimated number of splash blocks. However, the estimated numbers included in the bid documents by the program are indicated as estimated quantities as indicated in the bottom of each work write-up sheet. It is the expectations of the program to have a functioning gutter and down spout system that meets RRS codes upon completion and is not meant to provide detailed estimations of total material supplies needed for the job. It is the opinion of this program, with exception of the two missing splash blocks, that the contractor did provide for a gutter and down spout system that does meet RRS. The price for doing so was considered as competitive pricing based on the bidding process utilized in determining the contractor and base price for the job.

E-E.4: Upon reinspection of the unit, the outside electrical receptacle was installed and in place on the side porch. (See photo in Exhibit 16).

E-M.1: Upon review of our files and reinspection of the unit, it was determined that the contractor did run a new entry cable from the meter to the relocated electric box for the \$100 bid item that was replaced. The electric company did

not indicate the need to make any changes from the meter box to the utility pole. Although it was agreed upon verbally and accepted by the Utility company, this clarification appears not to have made it into a written change order. However, it also appears as though the contractor did sufficient work considering the cost of service cable and the number of feet which the cable was run in order to justify the \$100 bid for that item of work. However, the program has made arrangements for the contractor to add the mast and additional service line. That work has been completed and is evidenced by the photo in Exhibit 17.

E-Mc.1: In reviewing our file with regards to this emergency repair, it appears as though the program's estimates on the surface areas, etc. were off. However, it is the expectation of the program, as indicated at the bottom of each bid sheet, that the estimated quantities provided by the program for bidding purposes are estimates only and not actual quantities. It is also listed on each bid sheet that the contractor is responsible for actual measurements for placement of their pricing, and are also provided the opportunity of doing a walk-through before bidding to verify and seek any corrections to the program's estimates or description of work to be performed.. Since there were multiple contractors that placed bids on the job, and there were no change orders affecting pricing on any of the items of work in question, it is felt by the local program that the cost paid for doing each of the items of work is competitive and reasonable even though the program's estimations of quantities are not exact. Therefore, it is the opinion of this office that the respective items of work were completed by the contractor. In the future, the program will attempt to include more accurate estimates in quantities as part of the work write-up utilized in bidding repair projects.

With regards to matching colors of new shingles to existing shingles, it is impossible to provide exact matches because of changes made by manufacturers. Therefore, shingles of like colors were utilized for the repair job to blend with the existing shingles on the remaining part of the house.

August 24, 2000

Heath Wolfe,  
Assistant District Inspector General  
U.S. Dept. Of Housing and Urban Development  
Office of Inspector General for Audit, Midwest  
Ralph H. Metcafe Federal Building  
77 West Jackson Boulevard, Suite 2646  
Chicago, Illinois 60604-3507

RE: Response to HUD IG Draft Audit Finding of 7/17/2000

Dear Mr. Wolfe:

As the Mayor for the City of Ironton, I provided the above referenced draft findings and reports to Ralph Kline of the Ironton Lawrence County Community Action Organization, Department of Housing and Community Development. I asked Mr. Kline, of the contracting agency for the City of Ironton, to review the draft finding and reports and to provide comments to the City. Mr. Kline's response is outlined in correspondence to my office dated 8/23/2000 as attached. Therefore, as the Mayor for the City, I would ask that you recognize those comments as being made on behalf of the City of Ironton.

Should you have any questions or wish to discuss any of these issues further, please give me a call at (740) 532-3833.

Sincerely,

/signed/

Robert Cleary,  
Mayor

cc. Lisa Patt-McDaniel, OHCP  
Ralph Kline, CAO



August 23, 2000

Mayor Robert Cleary  
City of Ironton  
301 S. Third Street  
Ironton, Ohio 45638

RE: Response to HUD IG Draft Audit Finding of 7/17/2000

Dear Mayor Cleary:

On the part of the Ironton Lawrence County CAO, Department of Housing and Community Development, I would like to respond to the above referenced HUD IG draft finding and report to the City of Ironton that was shared with us by your office as contracting entity for the City. This response reflects only comments to those items where there appear to be known discrepancies based upon opinions and information referenced in the reports. However, this response is not considered as a full response to the findings and report. A full response can not be made by our office until additional investigations into the various matters can be made.

**Issue #1: The City did not obtain documentation to show assisted households met the income requirements:**

Although the Program has not had an opportunity to review each of the cases cited within the draft finding, we did review a sampling of files and found that some of those files did have supporting documentation for incomes. Included in Attachment #1 is documentation showing income of either the owners and/or tenants for 614 Lawrence Street, 614 ½ Lawrence Street, 616 Lawrence Street, and 3034 South 6<sup>th</sup> Street. The program proposes to review each of the respective case files for needed documentation, and if missing, work with the respective applicants to secure such documentation as needed.

**Issue #2: The City provided assistance to Households that had the ability to repay their assistance:**

Although the program has not had the opportunity to review each of the respective files listed within the draft finding, it was noted that some of the applicants were very low income households at or below 50% of median income. It has been the policy of the City that individuals at or below 50% of median income were not considered for any repayment except upon the sale of property. This policy is reflected throughout several different sections of the Community's application when referencing types of assistance and expected pay back.

Should you have any questions or need any additional information, please feel free to discuss these issues with me further.

Sincerely,

/signed/

Ralph W. Kline,  
Community Development Director

cc. Lisa Pat-McDaniel, OHCP

April 6, 2000

Heath Wolfe,  
Assistant District Inspector General  
U.S. Dept. Of Housing and Urban Development  
Office of Inspector General for Audit, Midwest  
Ralph H. Metcafe Federal Building  
77 West Jackson Boulevard, Suite 2646  
Chicago, Illinois 60604-3507

RE: Response to HUD IG Draft Audit Finding of 3/6/2000

Dear Mr. Wolfe:

As the Mayor for the City of Ironton, I provided the above referenced draft findings and reports to Ralph Kline of the Ironton Lawrence County Community Action Organization, Department of Housing and Community Development. I asked Mr. Kline, of the contracting agency for the City of Ironton, to review the draft finding and reports and to provide comments to the City. Mr. Kline's response is outlined in correspondence to my office dated 4/6/2000 as attached. Therefore, as the Mayor for the City, I would ask that you recognize those comments as being made on behalf of the City of Ironton.

Should you have any questions or wish to discuss any of these issues further, please give me a call at (740)532-3833.

Sincerely,

/signed/

Robert Cleary,  
Mayor

cc. Bill Graves, OHCP  
Ralph Kline, CAO

April 6, 2000

Mayor Robert Cleary  
City of Ironton  
301 S. Third Street  
Ironton, Ohio 45638

RE: Response to HUD IG Draft Audit Finding of 1/31/2000

Dear Mayor Cleary:

On the part of the Ironton Lawrence County CAO, Department of Housing and Community Development, I would like to respond to the above referenced HUD IG draft finding and report to the City of Ironton that was shared with us by your office as contracting entity for the City. This response reflects only comments to those items where there appear to be known discrepancies based upon opinions and information referenced in the reports. However, this response is not considered as a full response to the findings and report. A full response can not be made by our office until such time that full access to records and additional investigations into the various matters can be made.

**Issue: The Program need to establish procedures and controls to ensure rehabilitation assistance meets State of Ohio Grant requirements regarding hazard insurance, mortgage liens, deed restrictions, or covenants on rehabilitation loans.**

The Program discussed with legal counsel the issue of not having change order amounts secured within the Program mortgages placed upon the properties at the time of loan closing and initial contracting. Legal counsel has in turn provided the Program with an open ended mortgage to be executed at the time of the initial contract which is being used on future rehabilitation jobs. The mortgages will be placed for the maximum activity amount allowable for the program. Therefore, any change orders for any future jobs should be secured under the Program's mortgage. A copy of this open ended mortgage is attached as Attachment 1.

With regards to the securing of hazard insurance for rehabilitation projects, if this is a required policy by HUD and the State, then the program will implement a policy requiring hazard insurance and the listing of the Program as insured lenders on all future rehabilitation projects. However, such a policy would have to be implemented realizing that this policy would likely eliminate some of the lowest income clients and neighborhoods from receiving assistance for which the HUD programs are intended because those clients will not be able to afford such insurance. We will await a final decision and direction from HUD and the State before implementing such a policy.

**Record Mortgage Liens on 11 properties cited in the draft findings in the amount of \$50,817:**

The Program is proceeding to obtain updated filings of mortgages to reflect the program change order amounts. To the date of this response, we have filed additional mortgages to reflect the change orders for the following properties:

514 South 10th Street	\$13,004
802 South 7th Street	\$12,751
609 Lawrence Street	\$ 4,285
616 Lawrence Street	\$ 3,847
614 and 614 1/2 Lawrence Street (2 units)	\$ 6,670
2439 South 10th Street	\$ 2,860
914 Walnut Street	\$ 1,960
305 Batham Lane	\$ 1,350
<b>Total to Date:</b>	<b>\$46,727</b>

The recorded mortgages are attached as Attachment 2. The program will pursue the balance of the requested mortgage additions.

**Provide evidence of property hazard insurance for five properties amounting to \$78,528.**

The Program has begun to search through files and inquire with the property owners in question with regards to hazard insurance. To the date of this response, we have found evidence to the following properties in questions:

512 South 8th Street	\$15,130
918 Adams Street	\$16,665
1825 South 4th Street	\$ 6,145
<b>Total</b>	<b>\$37,940</b>

Should HUD and the State require hazard insurance, and under directive of HUD and State, then the Program will take appropriate actions to require the remaining property owners obtain appropriate hazard insurance. Evidence of the insurance for the above listed properties obtained to date are attached as Attachment 3.

This office is unable to respond at this time to each of the remaining individual items stated in the draft finding. An investigation will be conducted with each of these remaining items and individual clients, and a formal response will be developed for each of these items as required at a later date.

Should you have any questions or need any additional information, please feel free to discuss these issues with me further.

Sincerely,

/signed/

Ralph Kline,  
Community Development Director

cc. Bill Graves, OHCP

July 28, 2000

Heath Wolfe,  
Assistant District Inspector General  
U.S. Dept. Of Housing and Urban Development  
Office of Inspector General for Audit, Midwest  
Ralph H. Metcafe Federal Building  
77 West Jackson Boulevard, Suite 2646  
Chicago, Illinois 60604-3507

RE: Response to HUD IG Draft Audit Finding of 6/23/2000

Dear Mr. Wolfe:

As the Mayor for the City of Ironton, I provided the above referenced draft findings and reports to Ralph Kline of the Ironton Lawrence County Community Action Organization, Department of Housing and Community Development. I asked Mr. Kline, of the contracting agency for the City of Ironton, to review the draft finding and reports and to provide comments to the City. Mr. Kline's response is outlined in correspondence to my office dated 7/27/2000 as attached. Therefore, as the Mayor for the City, I would ask that you recognize those comments as being made on behalf of the City of Ironton.

Should you have any questions or wish to discuss any of these issues further, please give me a call at (740)532-3833.

Sincerely,

/signed/

Robert Cleary,  
Mayor

cc. Lisa Patt-McDaniel, OHCP  
Ralph Kline, CAO

July 27, 2000

Mayor Robert Cleary  
City of Ironton  
301 S. Third Street  
Ironton, Ohio 45638

RE: Response to HUD IG Draft Audit Finding of Letter Dated June 23, 2000

On the part of the Ironton Lawrence County CAO, Department of Housing and Community Development, I would like to respond to the above referenced HUD IG draft finding and report. This response reflects only comments to those items where there appear to be known discrepancies based upon opinions and information referenced in the reports. However, this response is not considered as a full response to the findings and report. A full response can not be made by our office until such time that full review of records and additional investigations into the various matters can be made.

As a general comment with regards to the statement made in your draft finding that “The Department of Community Development’s Director for the Ironton-Lawrence County Area Community Action Organization, which the City contracted with to administer its Community Housing Improvement Program (formerly the Comprehensive Housing Program), said he was not aware of HUD’s conflict of interests requirements.” ; it is felt that this is an inaccurate quote. As the Department of Community Development Director, a more accurate representation of that statement would be that in 1991 under the Comprehensive Housing Program, the Department of Community Development was not aware nor was provided a copy of the written “conflict of interests” rules and regulation, and procedures as was provided to us by the State and utilized by the program in later years. Rather, at that time when we inquired to the State as to proper procedure for determining appropriate actions regarding conflict of interest, we were instructed, either verbally or by written means, to refer the matter to local legal counsel.

With regards to the two specific issues of conflict of interest, I would like to respond as follows:

**Issue 1: The City Inappropriately Provided Assistance to Units Owned by Community Action Organization:**

The Ironton Lawrence County Community Action Organization Acting as Management disagrees with your assessment that the utilization of Rehabilitation Assistance upon the referenced properties was inappropriate. First, since the acquisition, ownership, operation and maintenance of the two properties in question (863 & 863 ½ North 5<sup>th</sup> Street, and 318 Elm Street) were acquired and operated for the City under a plan originally approved by HUD for the benefit of low and moderate income tenants, then the beneficiary of any assistance by the program is to the tenants who occupy the units. Since the Ironton-Lawrence County Area Community Action Organization, Inc. (CAO) is a non-profit corporation with operations regulated under Internal Revenue Code 501(c)(3), and since the CAO is audited as a non-profit corporation by the State of



Ohio, there is assurance that the questioned expenditures continue to accrue to the benefit of the low income tenants living within the units, and that there are no “personal interest, direct or indirect, which is incompatible or in conflict with the discharge or fulfillment to the functions or responsibilities with respect to the completion of the housing rehabilitation work.” Such personal interests would result in a loss of CAO’s non-profit status. Rather, it is the mission of the CAO as a nonprofit corporation to provide such services to disadvantaged residents as were served by the questioned rehabilitation projects. Further, the work was completed in accordance with program requirements, the records being reported in full view and subject to the inspection of City, State of Ohio, HUD, CAO single agency auditors, Department of Development Auditors, and the State Auditors for the City of Ironton.

**Issue 2: The City Inappropriately Provided Housing To Relatives of a Community Action Organization Employee:**

The Ironton Lawrence County Community Action Organization disagrees with the statement that assistance was “improperly” provided to Relatives of a Community Action Employee. This action was undertaken after consultation with the State with the State’s direction at that time to check with local legal counsel. Based upon our recollection of the event, a local legal counsel opinion was sought out, and the independent opinion determine that the employee did not act in a decisional making capacity and an exception could be made to any potential conflict of interest. Therefore, providing assistance to the questionable relatives would be considered as an exception to the conflict of interest in this case.

What appears to be the greatest problem in this case is the age and availability of documentation regarding this case. Most Program records regarding this case are no longer available since the assistance was provided nearly 10 years ago beyond the 1989 Program record retention requirements (See Attachment 1). Likewise, in inquiring with the City Solicitors’s office his guidance in this matter was sought, the case also appears to be beyond normal retention requirements of legal counsel. Therefore, it does not appear that we continue to have the requested documentation showing the actions by the Program, State, and local legal counsel. However, as previously provided to the HUD IG Office, we were able to retrieve from a former complaint file a June 28, 1993 letter by the State of Ohio to the HUD Area Office showing that the matter was previously investigated by the State and HUD Area Offices when records were available. As stated within that letter, it was determined that neither the employee nor the Ironton-Lawrence County Community Action Organization, Inc. acted improperly in this matter.

Therefore, it appears as though the Program did take appropriate steps when providing assistance to the three respective households in question based upon the direction and information provided to the Program in regard to the handling of potential conflicts at that time.

Should you have any questions or need any additional information, please feel free to discuss these issues with me further.

Sincerely,

/signed/

Ralph W. Kline,  
Community Development Director

August 30, 2000

Heath Wolfe,  
Assistant District Inspector General  
U.S. Department of Housing and Urban Development  
Office of Inspector General for Audit, Midwest  
Ralph H. Metcalfe Federal Building  
77 West Jackson Boulevard, Suite 2646  
Chicago, IL 60604-3507

RE: Response to HUD IG Draft Audit Finding of August 4, 2000 (Supplement to Ralph Kline's response dated 8/30/00)

Dear Mr. Wolfe:

As the Mayor for the City of Ironton, I provided the above referenced draft findings and report to Ralph Kline of the Ironton Lawrence County Community Action Organization, Department of Housing and Community Development. I asked Mr. Kline, of the contracting agency for the City of Ironton, to review the draft findings and reports and to provide comments to the City. Mr. Kline's response is outlined in correspondence to my office dated 8/30/2000 as attached. This communication is a supplement to the response from Mr. Kline dated 8/30/2000.

**Administration Contracts Were Not Properly Procured:**

I would like to respond to the above referenced HUD IG draft finding and report on the procurement of professional services of the Community Action Organization as the City of Ironton's grant administrator. These services were procured according to the Ohio Compliance Supplement, Section 2-1 (copy attached). In accordance with the compliance supplement the City of Ironton is not required to formally publish and accept bids for professional services, only supplies and materials that exceed the city's bid limit, as set by ordinance, must be competitively bid and awarded. The contract between the City of Ironton and the Community Action Organization is audited annually according to Section 2-1, by the Auditor of State's office.

In regards to the conflict of interest by Councilman Joseph Black, it is the view of the administration of the City of Ironton that no conflict exists from Mr. Black's employment with the Community Action Organization. As such, any contract or grant applications for which Mr. Black endorsed and voted are legal and binding. The Charter for the City of Ironton under section 2.02 states that no member of council shall be interested in the profits or endorsements of any contract, job, work or service for the City of Ironton. Mr. Black did not receive or profit from the contract between the Community Action Organization and the City of Ironton.

The Community Action Organization is comprised of many different divisions, in which each division is independently funded. The division for which Mr. Black is employed has a primary function to monitor the construction of buildings within the flood plain areas of Lawrence County.

Mr. Black's employment with the Lawrence County Flood Plain Program is funded by Lawrence County Commissioners and grants obtained by the Community Action Organization on the behalf of the Lawrence County Commissioners. The City of Ironton has no interest in the flood plain program. The City of Ironton has a formal flood way protection system thus we are exempted from the 100- year flood plain restrictions, unlike other area of Lawrence County, Ohio. For the above-mentioned division of services and the separate funding of each division administered by the Community Action Organization, it is the City of Ironton's view that there was not a conflict of interest or profit to be gained on the part of Mr. Black. Thus making all contracts with the Community Action Organization and any grants on behalf of the City of Ironton legal and binding.

Should you have any questions or need any additional information, please feel free to discuss these issues with me further.

Sincerely,

/signed/

Robert A. Cleary, Mayor.,  
City of Ironton

August 30, 2000

Mayor Robert Cleary  
City of Ironton  
301 S. Third Street  
Ironton, Ohio 45638

RE: Response to HUD IG Draft Audit Finding of 8/4/2000

Dear Mayor Cleary:

In behalf of the Ironton Lawrence County Community Action Organization (CAO), Department of Housing and Community Development, I would like to respond to the above referenced HUD IG draft finding and report to the City of Ironton that was shared with us by your office as contracting entity for the City. However, this response is not considered as a full response to the findings and report. A full response cannot be made by our office until an additional investigation into the various matters can be made.

Our Office has reviewed the various issues raised in the above referenced draft audit finding. It is the opinion of this Office that many of these issues involve differences of interpretation of not only Federal rules and regulations, but also of those laws, rules, regulations, and policies at both the State and local level.

Based on the review of the recommendations and schedules providing further details of the audit, it appears as though the primary issues of the draft findings relate to: 1) procurement procedures relating to the housing rehabilitation program, small purchases, and some larger publicly bid contracts; 2) Contracting specifications associated with housing rehabilitation services; and 3) City contracting procedures as it relates to the CAO's administrative contract. Given the time constraints, we were unable to research all details relevant to these issues. However, I would like to provide the Program's general response to each of these issues.

**Issue #1: Procurement Procedures:**

With regards to the first issue pertaining to the procurement procedures of the housing program, a primary problem appears to be related to the number of bids received and/or the availability of program cost estimates to assure full and open competition, and cost reasonableness. In reviewing the cases with these issues, many of the cases were from the 92 and 94 fiscal year rehabilitation programs. These appear to be housing rehabilitation cases where the minimum of three contractors were selected by the homeowners, bids were solicited by the Program, but not all contractors placed bids. Also, during that time frame, cost estimates utilized to determine cost reasonableness were not published in the bidding process. Since that point of time and beginning in the 96 fiscal year program, the program worked along with the State and has changed its bidding procedure and estimate format. Program changes now encourage all potential contractors to bid jobs. We feel that these changes have already addressed many of these issues relating to procurement standards and control for the rehabilitation program.

With regards to procurement procedures relating to small purchases as cited with the demolition contracts, it is the opinion of this Office, that the Program can exceed minimum small purchase requirements in seeking more than three contractors to submit quotes and ask that those quotes be provided to us in a sealed bid format. It is felt by the Program, that in exceeding the small procurement standards, it can be assured that costs for such services are reasonable and without any appearance of collusion.

Regarding the recreational equipment and improvement contracts cited, these contracts were undertaken in the 92 and 94 fiscal year programs. We will need to further research those records, with the City to adequately respond to the issues and concerns raised.

To summarize, regarding the procurement recommendations, it is the intent of the Program to: 1) research each of these issues in conjunction with the City, State and HUD; 2) review the changes in procedures already implemented by the Program; and, 3) implement any changes in Program and policies necessary to assure that Federal, State, and Local standards are met.

**Issue #2:**

With regards to contracting specifications, it is felt that some of the specifications in the Program's Contracting Specification Book detailing material types and standards were not fully considered by the HUD Construction Analysis Team (Copy of Specification Book is included in Attachment 1). This document is provided to contractors and is referenced and made part of both the bidding and contracting documents. The document also acts as a supplemental narrative included in the basic work write up.

The Program has already undertaken steps beginning with its current 98 fiscal year program to expand staffing and expertise in this area. Staff is now undergoing additional training through the State sponsored R.R.S. Implementation Training program. In addition, the Program has brought aboard certified expertise from the local weatherization program, especially in areas relating to heating systems and other relevant areas.

In summary, the Program is prepared to continue working with the City, State and HUD to review internal controls and procedures relating to contract specifications and make any changes needed to help assure cost reasonableness of rehabilitation services.

**Issue #3:**

With regards to the issue relating to the administrative contract with the CAO, it is felt that the City and its legal counsel can better address issues relating to the City Charter. In reference to the City's administrative contracts with CAO, it should be noted that the contracting relationship was initially established in accordance to a general plan acknowledged by HUD. The CAO also realizes that procurement requirements may have changed at the Federal, State, and local levels since the initiation of the original contract. It is the recommendation of CAO that if the City so chooses to continue contracting with the CAO as an administrative entity, that we jointly review with Federal, State, and Local representatives existing contracting procedures to

determine if those procedures need to be changed. If changes need to be made in the City's procurement procedures, the CAO will work to comply with those procedures.

Should you have any questions or need any additional information, please feel free to discuss these issues with me further.

Sincerely,

/signed/

Ralph W. Kline, Director  
Department of Housing and Community Development

cc: Lisa Patt-McDaniels - OHCP

# Distribution

Secretary's Representative, Midwest (2)  
 Senior Community Builder/State Coordinator, Ohio State Office  
 Senior Community Builder/Coordinator, Cincinnati Area Office  
 Director of Community Planning and Development, Ohio State Office (2)  
 Deputy Secretary, SD (Room 10100)  
 Acting Chief of Staff, S (Room 10000)  
 Special Assistant to the Deputy Secretary for Project Management, SD (Room 10100)  
 Assistant Secretary for Administration, A (Room 10110)  
 Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)  
 Senior Advisor to the Secretary, Office of Public Affairs, W (Room 10132)  
 Director of Scheduling and Advance, AL (Room 10158)  
 Counselor to the Secretary, S (Room 10218)  
 Deputy Chief of Staff, S (Room 10226)  
 Deputy Chief of Staff for Operations, S (Room 10226)  
 Deputy Chief of Staff for Programs, S (Room 10226)  
 Deputy Chief of Staff for Policy, S (Room 10226)  
 Acting Deputy Assistant Secretary for Public Affairs, W (Room 10222)  
 Special Assistant for Inter-Faith Community Outreach, S (Room 10222)  
 Executive Officer for Administrative Operations and Management, S (Room 10220)  
 Senior Advisor to the Secretary for Pine Ridge Project, W (Room 10216)  
 General Counsel, C (Room 10214)  
 Assistant General Counsel, Midwest  
 Director of Federal Housing Enterprise Oversight, O (9<sup>th</sup> Floor Mailroom)  
 Assistant Secretary for Housing-Federal Housing Commissioner, H (Room 9100)  
 Office of Policy Development and Research, R (Room 8100)  
 Assistant Secretary for Community Planning and Development, D (Room 7100)  
 Executive Vice President, Government National Mortgage Association, T (Room 6100)  
 Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)  
 Chief Procurement Officer, N (Room 5184)  
 Assistant Secretary for Public and Indian Housing, P (Room 4100)  
 Chief Information Officer, Q (Room 8206)  
 Director of Departmental Operations and Coordination, I (Room 2124)  
 Chief Financial Officer, F (Room 2202)  
 Deputy Chief Financial Officer for Finance, FF (Room 2202)  
 Acting Director of Enforcement Center, V (200 Portals Building)  
 Director of Real Estate Assessment Center, X (1280 Maryland Avenue, SW, Suite 800)  
 Director of Multifamily Assistance Restructuring, Y (4000 Portals Building)  
 Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108) (2)  
 Director of Budget, FO (Room 3270)  
 Audit Liaison Officer, 3AFI (2)  
 Special Adviser/Comptroller, D (Room 7228) (2)  
 Departmental Audit Liaison Officer, FM (Room 2206) (2)  
 General Deputy Assistant Secretary for Community Planning and Development, D  
 (Room 7100)



Deputy Assistant Secretary for Grant Programs, DG (Room 7208)  
Acting Director of Block Grant Assistance, DGB (Room 7286)  
Director of Field Management, DCF (Room 7204)  
Acquisitions Librarian, Library, AS (Room 8141)  
Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy &  
Human Resources, B 373 Rayburn House Office Building, Washington DC 20515  
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340  
Dirksen Senate Office Building, United States Senate, Washington DC 20510  
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,  
706 Hart Senate Office Building, United States Senate, Washington DC 20510  
Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn  
Building, United States House of Representatives, Washington DC 20515  
Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn  
Building, United States House of Representatives, Washington DC 20515  
Ms. Cindy Foglemen, Subcommittee on Oversight and Investigations, Room 212, O'Neil  
House Office Building, Washington DC 20515  
Director, Housing and Community Development Issue Area, United States General  
Accounting Office, 441 G Street, N.W., Room 2474, Washington DC 20548 (Attention:  
Judy England-Joseph)  
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17<sup>th</sup> Street,  
N.W., Room 9226, New Executive Office Building, Washington DC 20503  
Mayor, City of Ironton (2)  
Deputy Director of Community Development, State of Ohio Department of Development (2)