
AUDIT REPORT



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U.S. Department of Housing and Urban Development
Report Number 2001-KC-1004

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KANSAS CITY
MISSOURI

City Auditor's Office
City of Kansas City, Missouri
Report Number 16-2001

REVIEW OF SUBRECIPIENT SELECTION, MONITORING AND REPORTING

CITY OF KANSAS CITY
DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT

KANSAS CITY, MISSOURI
JULY 9, 2001



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TO: William B. Rotert
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SUBJECT: Department of Housing and Community Development
Review of Subrecipient Selection, Monitoring and Reporting
Kansas City, Missouri

We have completed an audit of the Department of Housing and Community Development of the City of Kansas City, Missouri (City). The audit was the second joint effort between the local Office of Inspector General, U.S. Department of Housing and Urban Development (HUD) and the City Auditor's Office of Kansas City, Missouri. The first report, "Kansas City Needs a Housing Policy," was issued in April 2000. This report focuses on the activities of the City's Department of Housing and Community Development and its use of subrecipients to accomplish housing-related program objectives administered with HUD funds.

The overall objectives of our audit were to determine whether the City is adequately ensuring that HUD funds are administered in an efficient and effective manner, and in accordance with applicable rules, regulations and guidance. More specifically, our objectives were to determine whether the: (1) City actively and effectively monitors its subrecipients, (2) results reported to the City by subrecipients are adequately supported, and (3) results of the City's housing efforts, through its subrecipients, are accurately and completely reported to City administrators.

We found the City does not have a formal process for selecting subrecipients, does not adequately monitor subrecipients, and does not provide adequate information to the City Council.

For recommendations to HUD, we request that within 60 days, the Director of Community Planning and Development provide to the Office of Inspector General, for each recommendation 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 the Office of Inspector General copies of any correspondence or directives issued because of the audit.

For recommendations to the City, the Director of the Department of Housing and Community Development must submit the audit tracking report to the City Manager six months after the audit report is released by the City Auditor. Subsequent audit tracking reports must be submitted to the City Manager's Office every six months until all recommendations are resolved or a follow-up audit is conducted.

Should you or your staff have any questions, please contact Roger Niesen at (913) 551-5870 or Mark Funkhouser at (816) 513-3300.

Executive Summary


We have completed an audit of the Department of Housing and Community Development of the City of Kansas City, Missouri (City). The audit was the second joint effort between the local Office of Inspector General, U.S. Department of Housing and Urban Development (HUD) and the City Auditor's Office of Kansas City, Missouri. The first report, "Kansas City Needs a Housing Policy," was issued in April 2000.

This report focuses on the activities of the City's Department of Housing and Community Development and its use of subrecipients to accomplish housing-related program objectives administered with HUD funds. The overall objectives of our audit were to determine whether the City is adequately ensuring that HUD funds are administered in an efficient and effective manner, and in accordance with applicable rules, regulations and guidance. More specifically, our objectives were to determine whether the: (1) City actively and effectively monitors its subrecipients, (2) results reported to the City by subrecipients are adequately supported, and (3) results of the City's housing efforts, through its subrecipients, are accurately and completely reported to City administrators.

We found the City does not have a formal process for selecting subrecipients, does not adequately monitor subrecipients, and does not provide adequate information to the City Council.

Because the City does not have a formal selection process, HUD, the Mayor, the City Council and the public lack assurance that Federal grants are awarded according to applicable regulations and guidelines, and in an efficient, effective and fair manner. Moreover, the City's selection process lacks accountability and does not offer the City any defense against occurrences or allegations of favoritism or improper influence.

The lack of adequate monitoring causes a lack of assurance that subrecipients are accomplishing their specific goals related to improving communities in Kansas City, Missouri. In addition, because City housing officials do not provide adequate information to the City Council, HUD, the Mayor, the City Council, and the public lack assurance that Federal grants are awarded to organizations that best serve the housing and community development needs of Kansas City, Missouri. Moreover, this process lacks accountability and can lead to a public perception that awards are arbitrary or unjust.



City Housing Officials Do Not Have a Formal Process for Selecting Subrecipients

The City awarded more than \$85 million in HUD funds from 1998 through 2001, and yet City housing officials do not have a formal process to evaluate applications for HUD funds. Specifically, City housing officials do not document their evaluation process, reasons for selecting or rejecting applicants, or justification for the amounts recommended for award to the selected subrecipients. City housing officials said they do not consider it a priority to document their deliberations and final decisions for funding

subrecipients. Additionally, one City housing official said the deliberations are too sensitive to record because City documents are open to public scrutiny. As a result, HUD, the Mayor, the City Council, and the public have no assurance that Federal grants are awarded according to applicable regulations and guidelines, and in an efficient, effective and fair manner. Moreover, this process lacks accountability and does not offer the City any defense against occurrences or allegations of favoritism or improper influence (see Finding 1).

City Housing Officials Do Not Adequately Monitor Subrecipients

The City awarded \$60 million in HUD funds from 1998 through 2000, but City housing officials did not adequately monitor the subrecipients that received those funds. City housing officials do not have policies and procedures to ensure adequate monitoring of subrecipients and proper action by City officials if performance standards are not met. The U.S. Department of Housing and Urban Development has continually expressed similar concerns to City housing officials since early 1997. Although City housing officials have taken action in recent years aimed at oversight improvements, these efforts were limited and oversight is still not adequate. Oversight is not adequate because City housing officials do not consider it a priority to conduct comprehensive, well-documented reviews of subrecipient performance. As a result, HUD, the Mayor, the City Council, and the public lack assurance that subrecipients are accomplishing their specific goals related to improving communities in Kansas City, Missouri. They also lack assurance that Federal grants were used efficiently, effectively and according to applicable regulations and guidelines (see Finding 2).

City Housing Officials Do Not Provide Adequate Information to the City Council

City housing officials do not provide information to the City Council necessary to make defensible, fully informed decisions when awarding HUD funds. The City awarded more than \$85 million in HUD funds from 1998 through 2001 without adequate information on which to base its decisions. City housing officials said they provide the information they deem necessary or that is specifically requested by the City Council. City housing officials consider this information adequate for Council members to make decisions. However, this information is limited in scope and is not presented in a comprehensive package. As a result, HUD, the Mayor, the City Council, and the public

lack assurance that Federal grants are awarded to organizations that best serve the housing and community development needs of Kansas City, Missouri. Moreover, this process lacks accountability and can lead to a public perception that awards are arbitrary or unjust (see Finding 3).

Recommendations for the City

We recommend the Director of the Department of Housing and Community Development establish and implement a formal selection process for awarding Federal grants to subrecipients, written policies and procedures for oversight of subrecipients, and adequate, standardized information packages for the City Council to use in making funding decisions. We further recommend the Director establish and implement standardized periodic reporting to the City Council to keep Council members updated on subrecipient progress throughout the contract year, and an in-house mechanism to provide accurate subrecipient progress information to City administrators.

Recommendations for HUD

We recommend the Director of Community Planning and Development ensure the City follows the aforementioned recommendations, or if the City fails to do so within the reasonable timeframes recommended, consider imposing appropriate administrative sanctions.

We provided a copy of this report to the City's Director of the Department of Housing and Community Development for comment on May 7, 2001. We received the Director's initial written comments on May 30, 2001 and final comments on June 14, 2001. The final comments are incorporated into the Findings as appropriate and included in their entirety in Appendix A. We also provided a copy of this report to HUD's Director of Community Planning and Development of the Kansas City, Kansas office.

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Introduction

Each year, the City of Kansas City, Missouri (City) uses millions in HUD funds, particularly Community Development Block Grants and HOME Investment Partnerships Program funds, to address its housing needs. For 2001, the City awarded \$25 million to address its housing needs. Of this amount, HUD provided \$15 million in block grants and HOME funds. To receive block grant and HOME funds, Federal regulations require cities to develop a document that assesses various housing needs in their community, and which designs affordable, special-needs housing strategies and action programs to meet those needs. The City of Kansas City, Missouri develops this document, the “Consolidated Housing and Community Development One-Year Action Plan and Five-Year Plan,” obtains City Council approval, and submits the plan to HUD for final approval each year. The One-Year Action Plan serves as a guide for allocating available resources toward programs and projects that promote the City’s overall housing and community development goals and objectives.

Recipients of block grant and HOME funds, such as the City, are responsible for grant administration. Recipients may perform work directly through their own staff or indirectly through contractors and subrecipients. Subrecipients are public or private non-profit agencies, authorities or organizations receiving funds from the recipient to undertake activities eligible for assistance under the HUD programs. The City of Kansas City, Missouri uses subrecipients extensively, and has for many years. The City obtains its subrecipients through an application process conducted each year. The City publishes its “Citizen Participation Plan and Application Guide to the Consolidated Housing and Community Development Plan” each year. The guide describes how citizens, organizations, non-profit corporations, and for-profit businesses can be involved in the planning, development, implementation and monitoring of the City’s Consolidated Plan. The City accepts applications from interested parties and the City’s Department of Housing and Community Development is responsible for reviewing applications for block grant and HOME funds. This department selects and recommends to the City Council the subrecipients to receive the Federal funds. The department is also responsible for monitoring the subrecipients’ administration of the City’s block grant and HOME funds. This audit report focuses on the Department of Housing and Community Development’s selection and monitoring of subrecipients, and reporting to City administrators on subrecipient accomplishments.

Audit Objectives

The overall objectives of our audit were to determine whether the City is adequately ensuring that HUD funds are administered in an efficient and effective manner, and in accordance with applicable rules, regulations and guidance. More specifically, our original objectives were to determine whether the:

- City actively and effectively monitors its subrecipients.
- overall results the City accomplished in providing housing with HUD-related funds are reasonable in relation to the funds expended.

- results reported to the City by subrecipients are adequately supported.
- results of the City's housing efforts, through its subrecipients, are accurately and completely reported to City administrators.
- results comply with the City's housing needs as defined in the City's plans.

We were not able to accomplish 2 of our 5 objectives. Because the use of funds is not specifically categorized by subrecipients to correlate with block grant and HOME funds, we were not able to determine if the overall results the City accomplished in providing housing with HUD-related funds is reasonable in relation to the funds expended. During our audit, we determined that subrecipients receive funding from many sources in addition to HUD block grant and HOME funds. The subrecipients combine the funds from various sources and use the funds to meet administrative and operations costs, accomplish housing production needs, and provide economic development opportunities and community outreach services. Therefore, we could not determine the true cost of subrecipient efforts in relation to HUD funds.

In addition, because the City has not yet adopted a housing policy, we could not determine whether the results of subrecipient efforts comply with the City's housing plans. In April 2000, the Office of Inspector General and the City Auditor's Office of Kansas City, Missouri issued a report stating the City needs a housing policy. The City currently bases its housing strategy on what is contained in its Consolidated Housing and Community Development Plan. This Plan includes only vague descriptions of the City's housing strategies.

Audit Scope and Methodology

We performed our on-site work from December 2000 through April 2001. To meet our audit objectives, we interviewed HUD program staff, City staff, and a City Council member. We reviewed the City's contract files, subrecipient reimbursement requests and supporting documentation, subrecipient applications for funding, City recommendations for funding, the City's Consolidated Housing and Community Development Plans, and housing production reports provided to City administrators. We also reviewed the City's subrecipient monitoring files,

subrecipients' audited financial statements, monthly and annual progress reports, and the City's in-house monitoring reports and related correspondence. We also viewed four videotaped meetings of the City's Planning, Zoning and Economic Development Committee during which the Committee deliberated over the "2001 Consolidated Housing and Community Development Plan."

We performed on-site reviews of five subrecipients. During these reviews, we interviewed subrecipient staff, reviewed Board of Directors' minutes, and reviewed supporting documentation related to the subrecipients' use of Federal funds. For one subrecipient, we also assessed the controls over its management information system.

The audit covered funding years 1998 and 1999, and was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

City Housing Officials Do Not Have a Formal Process for Selecting Subrecipients

The City awarded more than \$85 million in HUD funds from 1998 through 2001, and yet City housing officials do not have a formal process to evaluate applications for HUD funds. Specifically, City housing officials do not document their evaluation process, reasons for selecting or rejecting applicants, or justification for the amounts recommended for award to the selected subrecipients. City housing officials said they do not consider it a priority to document their deliberations and final decisions for funding subrecipients. Additionally, one City housing official said the deliberations are too sensitive to record because City documents are open to public scrutiny. As a result, HUD, the Mayor, the City Council, and the public lack assurance that Federal grants are awarded according to applicable regulations and guidelines, and in an efficient, effective and fair manner. Moreover, this process lacks accountability and does not offer the City any defense against occurrences or allegations of favoritism or improper influence.

HUD Requirements

The City's use of Community Development Block Grants and HOME Investment Partnerships Program funds is governed by several sections of the Code of Federal Regulations (CFRs), the Office of Management and Budget Circular A-87, and guidance developed by HUD.

24 CFR Part 85.20 states that the financial management systems of grantees and subgrantees must meet internal control standards. The regulation also says that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

24 CFR Part 85.22 (b) requires State, local, and Indian tribal governments to follow the Office of Management and Budget Circular A-87, "Cost Principles for State and Local Governments." The City of Kansas City, Missouri is a local government according to 24 CFR Part 85.3.

Office of Management and Budget Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph A(2)(a)(1) states that governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

Other HUD Guidance

HUD Guidebook, “A Guidebook for Grantees and Subrecipient Oversight – Managing Community Development Block Grants,” dated August 1993 states that a thoughtful pre-award assessment of potential subrecipients can:

- reduce the risk of major problems later on, and
- increase the chances for success.

The guidebook provides a checklist of criteria for selecting subrecipients and assessing risk, and says that a grantee should use such criteria to determine whether a prospective subrecipient has the necessary systems in place for the Federal requirements that impact the type of activity being proposed. The guidebook also provides a risk analysis matrix that can be used to guide the selection process. Further, regardless of the selection approach used, grantees are encouraged to make selection criteria explicit and, as much as possible, to tie the criteria directly to the block grant program requirements. This will serve several purposes, among them:

- by presenting the criteria explicitly at the beginning of the process, you can reduce the number of questions which may arise over the objectivity and fairness of your assessments; and
- by tying the criteria to the Federal program requirements, grantees can begin to educate prospective subrecipients and the community at large about the regulatory constraints that limit how the grantee operates the local block grant program.

Formal Selection Process Does Not Exist

City housing officials do not have a formal process to review and select applications for award of block grant and HOME funds. Although City housing officials conduct a formal process for obtaining applications for the funding, they do not document their evaluation process or reasons for selecting or rejecting individual applications received. Further, City housing officials do not document their justification for the amounts and recipients recommended for award (also see Finding 3).

We reviewed the 44 applications submitted for 2001 block grant and HOME funds and found notations indicating City housing staff reviewed 10 of the 44 applications. We found no evidence the staff reviewed the remaining 34 applications. City housing officials confirmed that no

formal process is used to select the applicants to receive funding. Instead, City housing officials hold internal meetings to discuss the applications and make decisions regarding which applications to fund and for what amount. City housing officials do not ensure consistent and fair consideration of applications because they do not use an evaluation form, checklist, risk analysis, or rating system.

We also noted that 3 of the 44 applications were considered for funding even though they were not date stamped by the City housing staff to show they were submitted by the application deadline. The City funded 2 of the 3 applications, for a total of \$90,000.

Application Guide is Available

The City solicits applicants through its “Citizen Participation Plan and Application Guide to Kansas City, Missouri’s Consolidated Housing and Community Development Plan.” The guide describes how citizens, organizations, non-profit corporations, and for-profit businesses can be involved in the planning, development, implementation, and monitoring of Kansas City’s Consolidated Plan. The guide also explains the application process that interested parties are to use when applying for funding of activities to meet the City’s needs.

For block grant funds, the guide describes the City’s general strategies, goals and objectives for housing and community development, and sets forth funding priorities and generalized selection criteria. Although the guide provides basic block grant selection criteria and states that each proposal will be reviewed to determine the extent to which the project or program meets the criteria, the guide does not explain the City’s specific evaluation process or the level of importance placed on each of the criteria.

For HOME funds, the guide describes the general purposes of the HOME Program, and directs a majority of such funding to a current subrecipient, the City’s lender. The remainder is set aside, per Federal regulations, for qualified Community Housing Development Organizations.

Formal Selection Process Not a Priority

City housing officials do not consider the development of a formal selection process a priority. They indicated resources are better used to accomplish program objectives rather than document them. One housing official said deliberations were

documented in the past, but were discontinued because they were too sensitive to be open to public scrutiny. We believe documented deliberations are an important control that helps ensure efficient and equitable use of funds, and that public scrutiny is an important factor that contributes to proper use of Federal funds.

Formal Selection and Funding Process Needed

Formal selection and funding processes, including systems to ensure consistency and equal consideration of applicants, are necessary to provide HUD, the Mayor, the City Council, and the public assurance that Federal grants are awarded according to applicable regulations and guidelines, and in an efficient, effective and fair manner. Formal selection and funding processes also help ensure accountability and provide the City a defense against occurrences or allegations of favoritism or improper influence.

Auditee Comments

The Director of the Department of Housing and Community Development of the City of Kansas City, Missouri responded to our draft report with written comments. Excerpts from these comments follow. Appendix A contains the complete text of the comments.

The City's Department of Housing and Community Development concurs with developing an additional step to add a written analysis for each application for funding, which will evaluate the application against the criteria published in the Citizens Guide. This procedure will be implemented in the next annual planning cycle commencing September 2001.

Evaluation of Auditee Comments

The actions the City's housing officials intend to take should ensure consistency and equal consideration of applicants if the written analysis is completed on all applications, and City staff fully document in writing their recommendations for each application, including justification for the amount of funding (if any) recommended.

Recommendation for
the City

We recommend the Director of the Department of Housing and Community Development of the City of Kansas City, Missouri:

- 1A. Establish and implement a formal selection process for awarding Federal grants to subrecipients before the next funding cycle. This process should include:
 - (1) a mechanism, such as an evaluation form, risk analysis, or rating system, that ensures each applicant receives equal consideration in relation to the specific list of criteria established.
 - (2) a requirement to fully document its reasons for recommending or rejecting funding to each applicant, and the amount of funding recommended for award.

Recommendation for
HUD

We recommend the Director of Community Planning and Development ensure the City of Kansas City, Missouri:

- 1A. Establishes and implements a formal selection process for awarding Federal grants to subrecipients, or if the City fails to do so within the reasonable timeframe recommended, consider imposing appropriate administrative sanctions.

City Housing Officials Do Not Adequately Monitor Subrecipients

The City awarded \$60 million in HUD funds from 1998 through 2000, but City housing officials did not adequately monitor the subrecipients that received those funds. City housing officials do not have policies and procedures to ensure adequate monitoring of subrecipients and proper action by City officials if performance standards are not met. The U.S. Department of Housing and Urban Development has continually expressed similar concerns to City housing officials since early 1997. Although City housing officials have taken action in recent years aimed at oversight improvements, these efforts were limited and oversight is still not adequate. Oversight is not adequate because City housing officials do not consider it a priority to conduct comprehensive, well-documented reviews of subrecipient performance. As a result, HUD, the Mayor, the City Council, and the public lack assurance that subrecipients are accomplishing their specific goals related to improving communities in Kansas City, Missouri. They also lack assurance that Federal grants were used efficiently, effectively and according to applicable regulations and guidelines.

HUD Requirements

The City's use of Community Development Block Grants and HOME Investment Partnerships Program funds is governed by several sections of the Code of Federal Regulations (CFRs), the Office of Management and Budget Circular A-87, and guidance developed by HUD.

24 CFR Part 85.20 states that the financial management systems of grantees and subgrantees must meet internal control standards. The regulation also says that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

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

24 CFR 570.501(b) says the grantee is responsible for ensuring that Community Development Block Grant funds are used in accordance with all program requirements. The

use of subrecipients does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of the performance under subrecipient agreements and for taking appropriate action when performance problems arise.

24 CFR 92.504(a) says the participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each subrecipient and contractor must be reviewed at least annually.

24 CFR Part 85.22 (b) requires State, local, and Indian tribal governments to follow the Office of Management and Budget Circular A-87, “Cost Principles for State and Local Governments.” The City of Kansas City, Missouri is a local government according to 24 CFR Part 85.3.

Office of Management and Budget Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph A(2)(a)(1) states that governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

Other HUD Guidance

HUD Guidebook, “A Guidebook for Grantees and Subrecipient Oversight – Managing Community Development Block Grants,” dated August 1993 says monitoring can be aimed simultaneously at:

- meeting program regulations,
- measuring progress toward performance goals, and
- improving the product or service being delivered.

The guidebook also says that monitoring should not be a “one-time event.” To be an effective tool for avoiding problems and improving performance, monitoring must involve an on-going process of planning, implementation, communication, and follow-up.

Grantees should develop a monitoring plan so resources can be matched with the needs and capacity of the subrecipients. In addition to the questions of how often and how thoroughly

to monitor, the monitoring plan should specify when the grantee expects to visit each subrecipient. The monitoring plan should also specify the particular items or documents the grantee will examine in the course of each visit. To ensure that grantees examine the correct items for the activity area in question, as well as to promote thoroughness and consistency in monitoring, it is helpful to use standardized monitoring checklists or workbooks for on-site reviews. The checklist should also specify the steps to follow in the site inspection or file review to measure compliance.

The guidebook also identifies the three most important strategies for effective monitoring as:

- on-site field visits,
- open communications, and
- assisting subrecipients in creating good record-keeping systems.

Grantees should keep a clear written record of the steps followed and the information reviewed during the on-site visit. Grantees should also document any conversations with subrecipient staff. Grantees will find this information invaluable in analyzing information, developing conclusions from the monitoring visit, and explaining the basis for any findings that appear in monitoring letters. Being able to identify the sources of the information used to arrive at conclusions is particularly important if the subrecipient disputes any of the findings.

Monitoring Efforts Are
Not Adequate

City housing officials do not adequately monitor subrecipients receiving block grants and HOME funds. Specifically, City housing officials have not established and implemented written policies and procedures to ensure City housing staff adequately monitor subrecipients and take appropriate action when performance standards are not met. Further, City housing officials do not adequately validate subrecipients' reported progress, which could be accomplished by conducting sufficient on-site reviews.

We reviewed the City's monitoring files for contract years 1998 and 1999 for five subrecipients. We evaluated the files to determine whether City housing officials ensured monthly performance reports were submitted, reviewed and followed up on when necessary; and whether City housing officials adequately verified the reported progress. We

found problems with the City housing officials' monitoring efforts in all five cases. For example:

The City awarded one subrecipient Federal funds totaling \$30,000 for contract years 1998 and 1999 to conduct an 8-week summer youth camp. Although the subrecipient submitted a report for each year summarizing the specific activities and progress of the camp, the monitoring file for 1998 showed no indication of review of the report or any other oversight efforts by City housing staff. The monitoring files indicated City housing officials reviewed the 1999 progress report, but there was no evidence of other actions, such as on-site reviews, to verify the accuracy of the report.

We noted a discrepancy between the 1998 progress report and the documentation supporting use of the Federal funds. The 1998 progress report showed 130 participants attended the camp while expenditure documents showed the subrecipient paid the camp for 176 participants, indicating a potential overpayment of Federal funds to the camp. City housing officials received both the 1998 progress report and the expenditure documentation and should have identified the discrepancy and disallowed reimbursement until the discrepancy was resolved.

The 1999 progress report and the documentation supporting use of the Federal funds also indicated discrepancies that were not identified and resolved by City housing staff. The report indicated 130 participants attended the camp while expenditure documents showed the camp was paid for only 98 youth. Although this discrepancy did not indicate overpayment of Federal funds, City housing staff should have questioned the validity of the progress report and whether Federal funds were used to provide services to as many youth as claimed by the subrecipient.

The City awarded another subrecipient Federal funds of \$10,677,000 for contract year 1998 and \$13,815,500 for contract year 1999 to perform numerous housing-related services as the City's lender. We determined that the subrecipient did not submit monthly progress reports, as required in its contract, but instead submitted one report for contract year 1998 that covered the first ten months of the contract year. For contract year 1999, the subrecipient

submitted sporadic, interim reports that covered different activities and different time periods. Further, except for two instances, we found no evidence City housing officials reviewed the interim reports.

Validation of Reported
Progress is Not Adequate

In addition to inadequate in-house monitoring of reports submitted by subrecipients, City housing officials did not adequately validate subrecipients' reported progress, which could be accomplished by conducting sufficient on-site reviews. City housing officials had no documentation to support on-site visits, with the exception of minor notations indicating visits were accomplished. The notations provided little or no details of the intent or results of the reviews.

Our on-site reviews revealed that subrecipients could not fully support the results reported to City housing officials for the 1998 and 1999 contract years. As a result, we concluded that City housing staff relied too heavily on the subrecipients' self-reported monthly progress reports and did not make sufficient effort to validate the reports. For example:

The City awarded one subrecipient Federal funds of \$282,000 for contract year 1998 and \$225,000 for contract year 1999 to provide program coordination and services in support of rehabilitation and redevelopment activities. Of the 31 activities assigned to the subrecipient in the two contract years, the subrecipient adequately supported only 19 of the activities. For example, the subrecipient could not fully support that it assisted 45 individuals with applications for City programs, or that warranty/punch lists were completed for 20 houses. The subrecipient could not fully support reported results because it either did not accomplish them or did not retain detailed records to support that it had accomplished them.

The City awarded another subrecipient Federal funds of \$225,000 in program year 1998 and another \$225,000 in program year 1999 to provide program coordination and services in support of rehabilitation and redevelopment activities. The subrecipient could not produce sufficient documentation to fully support reported results for contract years 1998 and 1999. Although the subrecipient adequately supported progress reported for its multi-family housing, community development, economic development, and

neighborhood support service activities, the subrecipient did not adequately support reported progress related to single-family housing production. For example, the subrecipient could not fully support the dates construction ended or the dates of individual property sales. Because the monthly progress reports submitted by the subrecipient did not always contain property addresses when summarizing work completed, the subrecipient was not able to specifically identify the housing units counted/reported on in its progress reports.

The subrecipient attempted to support the progress reports by providing us with spreadsheets that tracked housing production information for single-family new construction and rehabilitation. The Executive Director told us she used the spreadsheet data in reporting on the housing production in the monthly progress reports to City housing officials. We attempted to verify the data on the spreadsheet, but found numerous discrepancies between the spreadsheet data and the subrecipient's project files. In general, the project files did not provide an adequate audit trail of the activities taking place on a unit and we could not rely on the spreadsheets as support for the progress reports submitted to City housing officials. Moreover, because progress was reported without specific detail, such as addresses, individual housing units could have been reported in more than one contract year. We were not able to verify whether the subrecipient's actual accomplishments were correctly reported or had been overstated.

As previously indicated, the City awarded another subrecipient Federal funds of \$10,677,000 for contract year 1998 and \$13,815,500 for contract year 1999 to perform numerous housing-related services as the City's lender. City housing officials said they monitor this subrecipient primarily by attending its monthly Board of Directors' meetings and reviewing the monthly Board reports and attachments. However, the subrecipient's Board minutes indicated City housing staff did not begin attending the monthly Board meetings until February 2000. Further, merely attending Board meetings provides no assurance that proper procedures are followed and funds are effectively used.

The monitoring files provided other evidence of oversight efforts and communications with the subrecipient, such as correspondence between City housing officials and the subrecipient and internal City memorandums. However, this documentation was sporadic and typically pertained to financial issues, not the overall progress of the subrecipient toward meeting its housing-related performance standards. We identified no other evidence of review by City housing staff.

Our on-site review of this subrecipient also raised other concerns. This subrecipient administers a majority of the block grant and HOME funds awarded to the City each year. As such, City housing officials rely on this subrecipient for data on housing production accomplishments. We noted that the subrecipient does not have an integrated management information system. The subrecipient creates numerous housing production reports each month for its Board of Directors and City housing officials. These reports are derived from the general ledger accounting system, at least two stand-alone databases, and several stand-alone spreadsheets. The maintenance of these various systems, databases and spreadsheets requires similar data entries in the various systems.

The duplication of systems and similar data entry increases the risks of data errors and conflicting information, and therefore diminishes the integrity of the housing production data provided to its Board and City housing officials. Because City housing staff rely on this subrecipient for housing production data, City administrators may be making decisions related to block grant and HOME funds without having accurate data (also see Finding 3). City housing officials said they had only recently become aware of the subrecipient's lack of an integrated management information system. We believe City housing officials would have recognized this risk much sooner had they validated reported progress by conducting on-site reviews.

On-site Reviews Not Supported by Housing Management

City housing staff said that when the Grants Monitoring Division began in the Fall of 1998, City housing management did not support performing on-site reviews of subrecipients. The division monitored subrecipients by reviewing the annual financial statement audits and the monthly progress reports submitted by the subrecipients.

City housing staff said on-site reviews were conducted occasionally, but with no pattern of consistency. City housing managers provided no direction on the need for, the frequency of, or documentation required for on-site reviews. City housing staff said their managers requested only an internal memorandum that summarized the site visits. However, we did not find any such memorandums in the monitoring files for the five subrecipients reviewed in contract years 1998 and 1999.

HUD Previously
Expressed Monitoring
Concerns

Although HUD's local program office and Office of Inspector General have continually expressed monitoring concerns in recent years, City housing officials have not implemented a comprehensive monitoring system. In April 1997, HUD informed the City that its extensive use of subrecipients required a significant measure of oversight by the City in order to assure that activities were administered in accordance with Federal requirements and that reasonable performance goals were achieved. HUD also strongly encouraged the City to use HUD guidance contained in "A Guidebook for Grantees and Subrecipient Oversight – Managing Community Development Block Grants" in the day-to-day administration of its programs.

Specifically, HUD expressed concern that City housing officials had not used a formal system of "risk analysis" to target technical assistance and oversight to those agencies and activities that were of greatest concern. HUD also strongly encouraged the City to develop and implement a comprehensive system of subrecipient management that included elements described in the guidebook. HUD extended its assistance to the City by offering to provide technical assistance and training to establish and implement a comprehensive monitoring system. HUD further noted that City housing officials had not performed in-depth, on-site monitoring of subrecipients, and recommended that the City place a priority on routinely performing on-site monitoring.

In September 1998, HUD conducted a limited review and found City housing officials had initiated some procedures to strengthen its subgrantee monitoring efforts. These included:

- a monthly item-by-item written progress review of performance measures in subrecipient contracts;
- pre-award training conferences with subrecipients to review local and Federal requirements; and

- development of a three-person, in-house monitoring division.

In December 1998, HUD's Office of Inspector General reported that City housing officials had not adequately monitored the performance of two particular subrecipients and recommended strengthening of monitoring procedures.

In August 2000, HUD reported that the City had strengthened its subrecipient management and oversight activities, with one important exception. City housing officials had not conducted an in-depth monitoring review of the City's lender, the City's largest and highest profile subrecipient. HUD informed the City it was imperative for the City to take immediate action. City housing officials responded that while they may not have monitored this subrecipient in the same manner as other subrecipients, City housing staff attended the subrecipient's monthly Board of Directors' meetings, and the monthly production was reviewed in detail during these meetings. In this way, staff monitored the subrecipient's performance against contract production goals in lieu of on-site monitoring. HUD responded that while attendance at monthly Board meetings may keep City housing officials apprised of the subrecipient's production, it did not provide any assurance of the subrecipient's compliance with applicable Federal statutes and regulations.

Since the time of the 1997 HUD review, City housing officials have been responsible for administering over \$80 million in Federal block grant and HOME funds.

Improvements Made Are
Not Adequate

In response to HUD's local program office and Office of Inspector General reports, City housing officials took steps to improve oversight of subrecipients. However, these improvements were limited and are still not adequate to ensure Federal funds are properly used. City housing officials initially responded to HUD's concerns by establishing the Grants Monitoring Division within the City's Department of Housing and Community Development in the Fall of 1998. However, City housing officials did not establish and implement written policies and procedures to guide the new division. As a result, the division does not conduct consistent levels of oversight, perform sufficient on-site reviews or consistently document oversight efforts.

City housing officials originally staffed the Grants Monitoring Division with four employees, but the staff soon diminished to three. The division maintained a staff of three employees until December 1999 when one employee retired. City housing officials did not replace the individual, but instead divided the job duties between the two remaining employees until October 2000 when a third staff member was again added. During the ten months the division had only two staff members, the staff members incurred additional duties when the City's priority shifted from subrecipient monitoring to fully implementing HUD's grant accounting system at the City. Division staff members said the implementation of the system required significant amounts of staff time to complete. We believe the City's failure to fully staff the division and the changes in priorities from subrecipient monitoring to implementation of a HUD accounting system contributed to the City's inadequate monitoring efforts.

Another improvement the City made was in its requirements for subrecipient reporting. City housing officials required more subrecipient performance reporting for the 1999 contract year than in 1998. In 1998, the contract required subrecipients to submit only monthly reports of the subrecipients' performance progress according to the contract performance standards. In 1999, City housing officials expanded the requirements and provided exhibits illustrating the expected reporting format. Specifically, the 1999 contract required:

- itemized lists of property and equipment purchased with funds provided in the contract.
- monthly financial reports which included the budget and any amendments, the current month's expenditures, previous expenditures, and remaining balance available.
- monthly performance reports that evaluated the subrecipients' progress toward meeting the contract services and goals.
- an annual performance report identifying accomplishments, problems or conditions contributing to failure to perform services or achieve goals under the contract, and proposed changes to correct such failures.

City housing officials also recently implemented an evaluation form they created for conducting on-site visits. Although the form addresses general subrecipient activities, it does not address specific activities as detailed in the HUD guidebook previously mentioned. The guidebook contains an extensive checklist of items to verify when conducting on-site reviews. However, the City's form is limited and not sufficient to ensure City housing officials conduct adequate on-site reviews. City housing staff said the Grants Monitoring Division recently set a goal of conducting at least one on-site visit of each subrecipient this year.

Although City housing officials have taken these actions to improve monitoring in recent years, the culmination of these efforts does not constitute an effective oversight system. City housing officials created a Grants Monitoring Division to improve subrecipient monitoring efforts, but did not make sure the division had policies and procedures to ensure adequate monitoring of subrecipients and proper action by City housing staff if performance standards were not met. As previously mentioned, City housing officials also did not ensure the division had sufficient staff to perform its duties adequately. Further, City housing officials required more progress reports from subrecipients, but increased subrecipient reporting is not an improvement if there is no effort to ensure that subrecipient progress reports are accurate. Similarly, development of an evaluation form is not effective unless it is sufficiently detailed and site reviews are actually conducted.

HUD Guidance Was Available

HUD guidance was available in contract years 1998 and 1999, and is currently available to City housing officials for use in its monitoring efforts. For example, City housing staff maintains HUD guidance such as "A Guidebook for Grantees and Subrecipient Oversight – Managing Community Development Block Grants," dated August 1993. The guidebook provides valuable information on how to implement a comprehensive system of subrecipient oversight, including detailed examples of risk assessments, checklists and suggestions for documenting oversight efforts. City housing staff also maintains the "Community Planning and Development Monitoring Handbook." Although the handbook is an internal HUD document, HUD's local office provided the handbook to the City to

use as a tool in conducting reviews of subrecipients. Further, City housing officials received training relative to subrecipient monitoring and HUD’s local office offered, and continues to offer, its assistance to the City in establishing a comprehensive system of subrecipient oversight. However, as previously indicated, City housing officials still have not followed HUD’s guidance and implemented a comprehensive oversight system to monitor subrecipients.

Well-documented
Monitoring System Not a
Priority

City housing officials believe detailed documentation of oversight efforts is not a priority. They said recent improvements and ongoing correspondence and meetings with subrecipients provide the necessary level of oversight and that resources are better used to accomplish program objectives rather than perform and document reviews.

Comprehensive
Monitoring System
Needed

We believe comprehensive, well-documented oversight efforts are a major component of adequate control over the use of funds awarded to subrecipients. Comprehensive systems of oversight are necessary to ensure subrecipients are using Federal funds efficiently, effectively and according to applicable regulations and guidelines. A comprehensive system also helps ensure resources are used to improve Kansas City, Missouri’s communities.

Auditee Comments

The Director of the Department of Housing and Community Development of the City of Kansas City, Missouri responded to our draft report with written comments. Excerpts from these comments follow. Appendix A contains the complete text of the comments.

The City’s Department of Housing and Community Development accepts the recommendations, which are fully compatible with the current program design. During the past year while transitioning to use of the federal IDIS reporting system, the Department has substantially enhanced its information database. This will result in more standardized and detailed reporting by all subrecipients, including the City’s lending agency, which is cited in the report. Effective monitoring and continuing oversight for both users of funds and projected results has always been a priority for the block grant program. Monitoring should not be regarded as a

“gotcha” exercise, but rather as an ongoing process to strengthen program delivery and effectiveness. With the commencement of the new contract year (June 2001), the Department is codifying field monitoring procedures in one document, with full implementation by the fully staffed three person monitoring unit. Utilizing risk analysis, subrecipients will be visited on a monthly, bi-monthly, or quarterly basis to test and verify activity reports, provide technical assistance to support the work of subrecipients as well as review of accomplishments toward achieving overall contract goals. The Department will consult with the local HUD office on a continuing basis to refine its reporting systems with written documentation of both site visit monitoring and technical assistance provided by staff.

Since it is absent in the audit report, the record should note that the block grant program has always required year-end audit reports, performed by Certified Public Accountants, of all subrecipient contracts. These audit reports provide accountability of program funds as well as provide determination that the subrecipient complied with the terms and conditions of the contracts. Also, the audit reports disclose any concerns or matters relating to the subrecipients’ accounting internal controls. This procedure has substantially contributed to the accountability and monitoring of the program for 26 years. In addition, HUD requires a detailed year-end activity report – both quantitative and qualitative – which accounts for all expenditures and accomplishments.

Evaluation of Auditee Comments

The Director refers to enhancement of the Department’s information database as a tool to ensure more standardized and detailed reporting by all subrecipients. While we recognize that the database exists, we did not evaluate its use or effectiveness because it was not yet tested or implemented by the time we completed our audit fieldwork in April 2001. Although the database may ensure more standardized and detailed reporting by all subrecipients, this does not reduce the City’s responsibility to oversee and validate its subrecipients’ reported progress.

The Director also refers to the Department’s reliance on year-end audits performed by Certified Public Accountants as part

of its monitoring efforts. While we agree that year-end financial audits of subrecipients are an important element of a comprehensive oversight system, these audits do not address the efficient and effective use of Federal funds in meeting program objectives. City housing officials need to conduct their own reviews to ensure subrecipients comply with applicable regulations and use Federal funds in the most efficient and effective manner.

The City's Department of Housing and Community Development accepts our recommendations, which the Director said are fully compatible with the Department's current program design. If the Director follows through on our recommendations, such actions should help ensure adequate control over the use of funds awarded to subrecipients.

Recommendation for the City

We recommend the Director of the Department of Housing and Community Development of the City of Kansas City, Missouri:

- 2A. Establish and implement written policies and procedures for oversight of subrecipients before the next funding cycle. The policies should:
- (1) be based on HUD's guidance.
 - (2) include policies and procedures for oversight of the City's subrecipients, including direction on actions to take when subrecipients fail to meet performance standards.
 - (3) include specific guidance on validating reported progress through on-site reviews of subrecipients.

Recommendation for HUD

We recommend the Director of Community Planning and Development ensure the City of Kansas City, Missouri:

- 2A. Establishes and implements a comprehensive system of subrecipient oversight acceptable to HUD, or if the City fails to do so within the

reasonable timeframe recommended, consider imposing appropriate administrative sanctions.

City Housing Officials Do Not Provide Adequate Information to the City Council

City housing officials do not provide information to the City Council necessary to make defensible, fully informed decisions when awarding HUD funds. The City awarded more than \$85 million in HUD funds from 1998 through 2001 without adequate information on which to base its decisions. City housing officials said they provide the information they deem necessary or that is specifically requested by the City Council. City housing officials consider this information adequate for Council members to make award decisions. However, this information is limited in scope and is not presented in a comprehensive package. As a result, HUD, the Mayor, the City Council, and the public lack assurance that Federal grants are awarded to organizations that best serve the housing and community development needs of Kansas City, Missouri. Moreover, this process lacks accountability and can lead to a public perception that awards are arbitrary or unjust.

HUD Requirements

The City's use of Community Development Block Grants and HOME Investment Partnerships Program funds is governed by several sections of the Code of Federal Regulations (CFRs) and the Office of Management and Budget Circular A-87.

24 CFR Part 85.20 states that the financial management systems of grantees and subgrantees must meet internal control standards. The regulation also says that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

24 CFR 85.40(a) says grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.

24 CFR 570.501(b) says the grantee is responsible for ensuring that Community Development Block Grant funds are used in accordance with all program requirements. The use of subrecipients does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of the performance under

subrecipient agreements and for taking appropriate action when performance problems arise.

24 CFR 92.504(a) says the participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise.

24 CFR Part 85.22 (b) requires State, local, and Indian tribal governments to follow the Office of Management and Budget Circular A-87, "Cost Principles for State and Local Governments." The City of Kansas City, Missouri is a local government according to 24 CFR Part 85.3.

Office of Management
and Budget Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph A(2)(a)(1) states that governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

Information Provided to
City Council is Not
Adequate

City housing officials do not provide adequate information to the City Council to make defensible, fully informed decisions when awarding HUD funds. City housing officials provide the City Council with limited subrecipient information that the housing officials deem necessary, and other information specifically requested by Council members. The information is generally provided early in the calendar year when the budget is being developed and public hearings and discussions on subrecipient funding applications and recommendations are held. City housing officials do not provide standardized, periodic reporting to the City Council on subrecipients' progress toward meeting the City's housing and community development needs. Therefore, the City Council does not have a perpetual history of subrecipient performance on which to base its decisions.

City housing officials said they provide the information they deem necessary for the City Council to make decisions regarding the award of Federal funds. These housing officials believe they provide adequate information in the "Proposals and Funding Recommendations for the Consolidated Housing and Community Development

Action Plan” provided to the City Council. However, our review of the Proposals and Recommendations booklets for years 1998 through 2001 determined the booklets do not include important information, such as specific explanations of why individual applications are recommended or are not recommended for funding, or the justification for the amount of funding recommended.

We also noted that the Proposals and Recommendations booklets do not indicate the amount of individual subrecipient funding awarded in prior years, and even more importantly, do not provide information on past performance of subrecipients applying for funding each year. City housing officials said prior year funding information is provided to the City Council when the Department of Housing and Community Development presents its part of the City’s overall budget to the City Council. However, we do not believe the budget information provides the level of detailed individual subrecipient funding information needed by the City Council to make future funding decisions. The City Council member we interviewed (the Chairman of the Planning, Zoning and Economic Development Committee) said the Council needs City housing officials to provide individual subrecipient funding information from prior years.

City housing officials also said they provide summary information of subrecipient past performance to the City Council in supplemental spreadsheets, separate from the Proposals and Recommendations booklet. We reviewed supplemental spreadsheets provided to the City Council to make decisions on funding for 2000. The spreadsheets covered the period from June through December 1999. Our review of the supplemental spreadsheets determined that the data was confusing, contained discrepancies, and was not adequate to provide the information necessary for the City Council to make well-informed decisions. For example, the spreadsheets summarized totals of housing production, but mixed production from prior years as well as the current year, making analysis of whether subrecipients met their yearly contracted performance standards impossible. Further, the spreadsheet did not contain any analysis by City housing staff of whether the individual subrecipients were on schedule with housing

production goals, or whether the goals would be met by the end of the contract year. In addition, the data on community service activities were merely activity totals that were not compared to contractual performance standards. The spreadsheet also did not provide any information on the status of economic development activities, a major thrust of some subrecipients.

Subrecipient Reports May
Not Be Accurate

City housing officials' reliance on subrecipients for progress data may put the City Council at risk of making decisions based on inaccurate data. As previously indicated in Finding 2, City housing officials rely on subrecipients' progress reports for data on the status of housing and community-related activities. This same data is used in reporting subrecipient performance information to the City Council. However, we found that City housing officials did not adequately validate subrecipients' reported progress, and that subrecipients could not fully support the results reported to City housing officials for the 1998 and 1999 contract years.

We noted in Finding 2 that the City's reliance on its largest and highest profile subrecipient causes significant concern. We found that the subrecipient does not have an integrated management information system. The subrecipient creates various housing production reports for the City, derived from the general ledger accounting system, at least two stand-alone databases, and several stand-alone spreadsheets. The maintenance of these various systems, databases and spreadsheets requires similar data entries in the various systems by several departments and individual employees. The duplication of systems and similar data entries increases the risks of data errors and conflicting information, and therefore diminishes the integrity of the housing production data provided to the City. Because City housing officials rely on this subrecipient for housing production data, City Council members have no assurance they are making award decisions based on accurate data.

City Council Does Not
Always Follow City
Award Recommendations

The City Council frequently increases funding to certain subrecipients, mainly the community development corporations, beyond the funding amounts recommended by City housing officials. Funding awards to such corporations are typically directed for administration and operations costs. As a result, City Council actions to

increase funding designated for administration and operations costs reduces the funding available for actual housing production. We reviewed the 36 funding awards for community development corporations for 1998 through 2001 and found the City Council increased the administration and operations funding in 16 instances. Because City housing officials do not document their funding deliberations and decisions regarding recommendations (also see Finding 1), and do not provide complete information to the City Council, there is no assurance these decisions provide the most effective use of funds.

City Funds Poor Performers

We also noted that the City Council approved funding for organizations not recommended for funding by City housing officials. City housing officials said they have tried to eliminate funding to subrecipients that they believe are no longer adequately providing needed services to the City, but the City Council consistently overrides their recommendations. A City housing official also said it takes a great deal of documentation to convince the City Council to eliminate funding to a poor performer, so most subrecipients are allowed to continue receiving Federal funds from the City. Again, because City housing officials do not document their deliberations and decisions on what organizations to fund, adequately monitor and document subrecipient performance (also see Finding 2), and provide the City Council comprehensive information, there is no assurance the City Council's decisions result in the most effective use of funds.

City Council Needs More Complete Information

City housing officials need to provide the City Council with more complete information regarding the individual applicants and City housing staff recommendations for subrecipient funding. Without comprehensive information, the City Council is at risk of providing Federal funds to organizations that are not best able to serve the City's housing and community development needs. Further, the City Council could make funding decisions that cannot withstand public scrutiny, and give the appearance that awards are arbitrary or unjust.

Auditee Comments

The Director of the Department of Housing and Community Development of the City of Kansas City, Missouri responded to our draft report with written comments. Excerpts from these comments follow. Appendix A contains the complete text of the comments.

The City's Department of Housing and Community Development concurs with our recommendations. The Director said that the recommendations are consistent with the Department's current practices, but can be expanded. The Director also said that this past year, the City Council has been involved in substantive discussions to more clearly define housing policies; and the Department's expanding data base and information system capacity will assist decision-makers and planners at all levels. Also, use of the Citywide Housing Survey married with the 2000 Census Data will provide another valuable instrument in this regard.

Evaluation of Auditee Comments

The actions the City's housing officials intend to take to establish and implement standardized information packages and a mechanism to provide these to City administrators should provide the City Council with complete information to make informed funding decisions and ensure efficient and equitable use of funds. However in order for this to occur, the information needs to be consistent among all subrecipients and clearly document current and past performance.

Recommendations for the City

We recommend the Director of the Department of Housing and Community Development of the City of Kansas City, Missouri:

- 3A. Establish and implement adequate, standardized information packages, before the next funding cycle, to provide to the City Council for use in making funding decisions. The information provided should clearly demonstrate subrecipients' prior funding provided by the City and past

performance, including comparisons of subrecipient performance standards and actual accomplishments.

- 3B. Establish and implement an in-house mechanism, before the next funding cycle, to provide accurate subrecipient progress information to City administrators and periodic reporting to the City Council to keep members updated on subrecipient progress throughout the contract year.



Recommendation for HUD

We recommend the Director of Community Planning and Development ensure the City of Kansas City, Missouri:

- 3A. Establishes and implements adequate, standardized information packages to provide to the City Council for use in making funding decisions, or if the City fails to do so within the reasonable timeframe recommended, consider imposing appropriate administrative sanctions.
- 3B. Establishes and implements an in-house mechanism to provide accurate subrecipient progress information to City administrators and periodic reporting to the City Council, or if the City fails to do so within the reasonable timeframe recommended, consider imposing appropriate administrative sanctions.

Management Controls

In planning and performing our audit, we considered the management controls of the Department of Housing and Community Development of the City of Kansas City, Missouri to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of 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.

Relevant Management Controls

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

- Developing and implementing policies and procedures that reasonably ensure programs meet objectives.
- Safeguarding resources.

We assessed 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:

- The City awarded more than \$85 million in HUD funds from 1998 through 2001, and yet City housing officials do not have a formal process to evaluate applications for HUD funds. Specifically, City housing officials do not document their evaluation process, reasons for selecting or rejecting applicants, or justification for the amounts recommended for award to the selected subrecipients (see Finding 1).
- The City awarded \$60 million in HUD funds from 1998 through 2000, but City housing officials did not adequately monitor the subrecipients that

received those funds. More specifically, City housing officials do not have policies and procedures to ensure adequate monitoring of subrecipients and proper action by City officials if performance standards are not met (see Finding 2).

- City housing officials do not provide information to the City Council necessary to make defensible, fully informed decisions when awarding HUD funds. The City awarded more than \$85 million in HUD funds from 1998 through 2001 without adequate information on which to base its decisions (see Finding 3).

Follow Up On Prior Audits

The Office of Inspector General issued an Audit Related Memorandum in April 2000 regarding housing policies for the City of Kansas City, Missouri (City). The memorandum transmitted a report issued as a result of a joint effort with the City Auditor's Office of the City of Kansas City, Missouri. The report contained one finding and one recommendation. The report disclosed that the City needed a housing policy. The City based its housing policy on its "Consolidated Housing and Community Development Plan," which included only vague descriptions of the City's housing strategies. When these strategies were used to measure performance, any outcome could be viewed as a success. The report also disclosed that the City did not maintain current housing-related data that could be used for identifying and developing effective housing policy, strategies and activities. The report contained no recommendations for HUD and the City has not completed actions on the single recommendation made to City administrators.

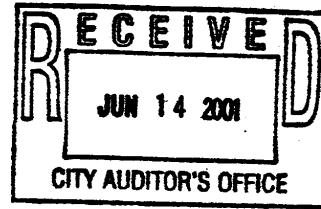
The Office of Inspector General issued an audit on the Community Development Block Grant program of the City of Kansas City, Missouri on December 8, 1998. The report contained three findings and three recommendations. The review concentrated on monitoring of subrecipients and the related activities of selected subrecipients. The report stated the City made some improvements in its monitoring of subrecipients, however, the City needed to make further improvements. Specifically, the City did not adequately oversee the performance of one subrecipient and did not hold its Board of Directors responsible for effecting collections of monies loaned. As a result, businesses receiving loans seldom made the required payments, therefore, loan repayments were not available to make new loans. Regarding another subrecipient, the City did not ensure the subrecipient complied with contract award requirements. Specifically, the subrecipient did not have a written contract for a major sanitary sewer installation and did not properly monitor the contractor's work. As a result, the subrecipient and its contractor were in dispute over the propriety of a \$157,000 change order at the time of the report. Further, the City executed contracts with community development corporations to perform housing activities and included performance standards that were not met. The three recommendations to resolve the findings were closed on March 22, 2000.

The Office of Inspector General issued an audit on the Section 108 loan guarantee program of the City of Kansas City, Missouri on January 10, 1992. The report contained one finding and one recommendation. The City received a \$1,755,000 Section 108 guaranteed loan for a specific redevelopment project. The City contracted with an outside agency (administrator) to administer the Section 108 loan. The administrator used part of the Section 108 loan proceeds to repay City loans used to purchase project land. The City then transferred the land and the remaining loan proceeds to the developer. In return for the land and loan proceeds, the developer gave the administrator a \$1,755,000 promissory note. The developer subsequently paid the administrator \$1,218,000 on the note. The administrator used the loan repayment to fund two escrow accounts (\$1,000,000 and \$215,000) to subsidize project mortgage payments and rents. A legal opinion from HUD General Counsel stated that use of Section 108 loan repayments to fund escrows was improper and escrows to subsidize mortgage payments and rents were an improper use of Community Development Block Grant funds. The recommendation to resolve the finding was closed on March 30, 1995.

Auditee Comments



Inter-Departmental Communication



DATE: June 13, 2001
TO: Mark Funkhauser, City Auditor
FROM: Stanley Barrett, Director *SEB*
Department of Housing and Community Development
SUBJECT: Revised Draft Audit Report

Attached is our department response to the subject report. We would appreciate its full inclusion in the final document. We feel that the recommendations are constructive and will be implemented as detailed in our response.

SEB/plh

cc: Robert Collins, City Manager

Audit Response

Before responding specifically to the three findings in the Housing Audit report, we address several general comments, which are germane to the entire report. Housing development is by its very nature a multi-year process starting with identification and acquisition of sites and terminating with completion of construction, obtaining a certificate of occupancy, and marketing to the end user – renter or homeowner. In the case of rental property, effective management becomes a continuing responsibility. Development within the urban core carries with it additional challenges – physical, economic, and social. In this context, the selection and oversight of subrecipients by the City is a continuum building upon experience and performance. While funds are authorized on a twelve-month basis, successful projects typically require implementation over a longer term by organizations with capacity acquired over a number of years.

Now entering its 27th year of operations, the CDBG program has nurtured a housing production network of subrecipient organizations reaching from the neighborhoods to the highest levels of commerce and industry in Kansas City and the nation. Without minimizing the importance of adequate documentation for planning recommendations and project monitoring, we feel that the audit report should acknowledge the substantive achievements of the City and its subrecipients which has produced over 6,000 units of affordable housing; created two urban core subdivisions (Citadel & Renaissance); developed mixed income and mixed type housing enclaves (Justin Place & Troostwood); and is now moving ahead with neighborhood wide impact projects (Beacon Hill and Upper Vine), to name a few highlights. Recognition of the effective housing production record through these and similar activities implemented with a high degree of accountability over more than two decades, presents a more balanced and complete picture of the entire community development effort in Kansas City.

1. **Selection of Subrecipients.** While the audit report acknowledges that “City officials conduct a formal process for obtaining applications for the funding”, it recommends that the selection process should be more fully documented utilizing either a formal written evaluation, risk analysis, or rating procedure. Noting that the current process results only in a staff **recommendation** given to City Council, not a **selection**, we concur with an additional step to add a written analysis for each application, which will evaluate the application against the criteria published in the Citizens Guide. This procedure will be implemented in the next annual planning cycle commencing September, 2001.

2. **Monitoring of Subrecipients.** Similar to the first finding, the audit report acknowledges improvements in the city oversight of subrecipients since the previous HUD review, and also recommends establishment of more formal written policies and procedures for monitoring and documentation of site visits, findings, and any corrective actions. We accept these recommendations which are fully compatible with the current program design. During the past year while transitioning to use of the federal IDIS reporting system, we have substantially enhanced our information database. This will result in more standardized and detailed reporting by all subrecipients, including the City's lending agency, which is cited in the report. Effective monitoring and continuing oversight for both users of funds and project results has always been a priority for the CDBG program. Monitoring should not be regarded as a "gotcha" exercise, but rather as an ongoing process to strengthen program delivery and effectiveness. With the commencement of the new contract year (June, 2001), we are codifying field monitoring procedures in one document, with full implementation by the fully staffed 3 person monitoring unit. Utilizing risk analysis, subrecipients will be visited on a monthly, bi-monthly, or quarterly basis to test and verify activity reports, provide technical assistance to support the work of subrecipients as well as review of accomplishments toward achieving overall contract goals. We will consult with the local HUD office on a continuing basis to refine our reporting systems with written documentation of both site visit monitoring and technical assistance provided by staff.

Since it is absent in the audit report, the record should note that the CDBG program has always required year end audit reports performed by Certified Public Accountants, of all subrecipient contracts. These audit reports provide accountability of program funds as well as provide determination that the subrecipient complied with the terms and conditions of the contracts. Also the audit reports disclose any concerns or matters relating to the subrecipients accounting internal controls. This procedure has substantially contributed to the accountability and monitoring of the program for 26 years. In addition, HUD requires a detailed year end activity report - both quantitative and qualitative - - which accounts for all expenditures and accomplishments.

3. **Information Provided to City Council.** As stated in the audit report, "City housing officials said they provide the information they deem necessary or that is specifically requested by City Council". It goes on to recommend adoption of standardized information packages, both during the annual planning process and periodically throughout the program year. We concur with these recommendations, which are consistent with our current practices, but can be expanded. This past year, the City Council has been involved in substantive discussions to more clearly define housing policies. Our expanding data base and information system capacity will assist decision-makers and planners at all levels. Use of the Citywide Housing Survey married with 2000 Census Data will provide another valuable instrument in this regard.

Addendum: Please note that the introduction on Page 1 contains a factual error. Rather than \$25 million, the second sentence should read "for 2001, HUD awarded the City about \$15 million in block grant and HOME funds".

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