



Audit Report

District Inspector General for Audit
Rocky Mountain District

City of Cheyenne, Wyoming

*Office of Housing and
Community Development
Homeowner Rehabilitation and
First-time Homebuyer
Assistance Programs*

2001-DE-1001

January 26, 2001

U. S. Department of Housing and Urban Development
District Office of Inspector General for Audit
633 17th Street, 14th Floor
Denver, CO 80202-3607



Audit Report

District Inspector General for Audit Rocky Mountain District

Report: 2001-DE-1001

Issued: January 26, 2001

TO: Guadalupe Herrera, Director, Rocky Mountain Field Office of Community Planning and Development, 8AD

FROM: Robert C. Gwin, District Inspector General for Audit, 8AGA

**SUBJECT: City of Cheyenne, Wyoming, Office of Housing and Community Development
Homeowner Rehabilitation and First Time Homebuyer Assistance Programs**

We reviewed the City of Cheyenne, Wyoming Office of Housing and Community Development's administration of its HUD funded programs. On April 25, 2000, HUD staff advised us of concerns related to the prior Administrator's oversight of these programs and requested we perform an audit in partnership with their onsite monitoring review. Due to the Rocky Mountain Field Office of Community Planning and Development and the Wyoming Community Development Authority reviews, we limited our review to the City's funding for rehabilitation of single-family homes and first-time homebuyer assistance programs. Specifically, we want to determine if the City of Cheyenne provided grants and/or loans for housing rehabilitation and first-time homebuyer down payment assistance consistent with the City's and HUD's requirements.

This report identifies that the City of Cheyenne's Office of Housing and Community Development Administrator and staff made unapproved program disbursements; did not adequately document or justify the assistance to be and/or actually provided, did not record and collect all program loans; and inappropriately provided assistance to persons with a conflict of interest. As a result, the City provided \$952,080 in unauthorized funding and failed to collect on over \$279,891 in loans, and could not justify the need for assistance provided. Therefore, these limited funds were not available to assist other needy families. This occurred because the City failed to provide adequate management controls and oversight of the Office of Housing and Community Development Administrator, staff, and its operations.

Within 60 days please furnish to this office, for the 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 us copies of any correspondence or directives issued because of the audit.

We appreciate the courtesies and assistance extended by the personnel of the City of Cheyenne, the Wyoming Community Development Authority and the Rocky Mountain Field Office of Community Planning and Development, during this audit. Should you have any questions, please contact Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.

Executive Summary

We performed an audit of the City of Cheyenne Office of Housing and Community Development HUD funded housing rehabilitation and first-time homebuyer down payment assistance programs. On April 25, 2000, HUD staff advised us of concerns related to the prior Administrator's oversight of these programs. Due to the Rocky Mountain Field Office of Community Planning and Development, and the Wyoming Community Development Authority's monitoring reviews, we limited our review to the City's rehabilitation of single-family homes (HAND Program) and first-time homebuyer down-payment assistance (CHOP Program).

Our audit determined that the City of Cheyenne's Office of Housing and Community Development Administrator and staff made unapproved program disbursements; did not adequately document or justify the assistance to be and/or actually provided, did not record and collect all program loans; and inappropriately provided assistance to persons with a conflict of interest. As a result, the City provided \$952,080 in unauthorized funding and failed to collect on over \$279,891 in loans, and could not justify the need for assistance provided. Therefore, these limited funds were not available to assist other needy families. This occurred because, the City failed to provide adequate management controls and oversight of the Office of Housing and Community Development Administrator, staff, and its operations.

The City received about \$2.36 million in Community Development Block Grant funds

Community Development Block Grant program is authorized under Title I of the Housing and Community Development Act of 1974. Community Development Block Grant provides eligible metropolitan cities and urban counties (called "entitlement communities") with annual direct grants. The grantees can use these funds to revitalize neighborhoods, expand affordable housing and economic opportunities, and/or improve community facilities and services, principally to benefit low to moderate-income persons.

The City of Cheyenne, Wyoming, as an entitlement community, received about \$2,360,000 in HUD Community Development Block Grants funds over the last four years. The City used a portion of these funds to assist low to moderate-income families perform needed home repairs and in assisting first time homebuyers purchase a home.

The City received about \$650,000 in HUD HOME funds

In addition to these funds, the City received about \$650,000 in HUD HOME grants funds through the Wyoming Community Development Authority. Again, the City used these funds to assist low to moderate-income families perform needed home repairs and in assisting first time homebuyers purchase a home. In addition, the City provided additional financial support from its general fund. The additional financial support represented the required Federal match to the HOME funds plus additional funds to further these programs.

Our Audit Objective

Our audit objective was to determine if the City of Cheyenne provided grants and/or loans for housing rehabilitation and first-time homebuyer down payment assistance consistent with the City and HUD requirements.

The HUD Rocky Mountain Field Office of Community Planning and Development and the Wyoming Community Development Authority also performed reviews of the City of Cheyenne Office of Housing and Community Development. To avoid overlapping reviews, we elected to limit our review to the City's rehabilitation of single-family homes and down payment assistance to first-time homebuyers.

Our audit determined that the City of Cheyenne failed to provide adequate management controls and oversight of the Office of Housing and Community Development prior Administrator, staff, and its operations. The City of Cheyenne needs to improve its oversight and monitoring of its Office of Housing and Community Development to ensure that program operates as intended and within the City and HUD's guidelines.

The City did not provide oversight of these programs

The Administrator and/or staff for the City of Cheyenne's Office of Housing and Community Development Office did not ensure that programs operated according to the City or HUD's requirements. Specifically, the prior Administrator and/or staff,

- Allowed the HAND and CHOP programs to expend about \$952,080 in excess of the amounts approved by the City's Mayor,
- Did not actively seek collection on \$279,891 owed by the participants to the City,
- Authorized amendments to City loan agreements without proper approval,
- Did not maintain a record keeping system to allow reconciliation with the City's and HUD's accounting records, and
- Allowed persons with a conflict of interest to participate in the program.

The City provided little, if any, oversight over the Administrator and staff activities and its operations. As such, the City did not identify the lack of management controls in the Office of Housing and Community Development.

The City initiated corrective actions

During the first few days of the audit, it became clear that the City provided little oversight of the Housing and Community Development Office or the staffs activity. Based on HUD's and our preliminary reviews, we briefed the City Attorney. The City Attorney took immediate actions. First, the City canceled all open purchase orders for

participants. Secondly, the City Attorney must approve all disbursements of funds. In addition, the City limited assistance under the HAND and CHOP program to emergency assistance.

The City also hired a new Administrator. The new Administrator's first task necessitated completion of the City Consolidated Plan to ensure Community Development Block Grant funds for the next year. In addition, the new Administrator began reviewing the most recent participant folders to obtain a better understanding of the problems. The new Administrator plans to use this knowledge in developing new program guidelines and internal management controls over these programs.

Auditee comments

The Auditee concurred with the finding. In addition, the Auditee provided substantial documentation related to actual and proposed changes to the programs referred to in this report. We believe if these changes are fully implemented the concerns raised in this report should be corrected. The City's written response to our draft finding is shown in Appendix A.

The City also requested that we provide them with a listing of loans identified during the audit, to facilitate in expediting the servicing and collecting the program loans. We are providing the list under a separate cover.

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Abbreviations:

CDBG	Community Development Block Grant
CHOP	Cheyenne Housing Opportunity Program
HAND	City of Cheyenne Housing Assistance and Neighborhood Development
HOME	HOME Investment Partnerships Act, Title II of the Cranston-Gonzalez National Affordable Housing Act
HUD	Department of Housing and Urban Development

Introduction

BACKGROUND

The Community Development Block Grant program is authorized under Title I of the Housing and Community Development Act of 1974, Public Law 93-383. HUD's implementing regulations are at Title 24 of the Code of Federal Regulations Section 570. Community Development Block Grant provides eligible metropolitan cities and urban counties (called "entitlement communities") with annual direct grants. The Grantees can use these funds to revitalize neighborhoods, expand affordable housing and economic opportunities, and/or improve community facilities and services, principally to benefit low and moderate-income persons.

In addition to the Community Development Block Grant, HUD provides funding through the Home Investment Partnership Program (HOME). HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. Each year it allocates more than \$1 billion among the States and hundreds of localities nationwide. The program was designed to reinforce several important values and principles of community development: HOME provides formula grants to States and localities that use these fund for wide range of activities to build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low and moderate income persons.

HUD defines low- and moderate-income persons, as members of a family earning no more than 80 percent of the area median income. Grantees must use at least 70 percent of Community Development Block Grant funds for activities that principally benefit low to moderate-income persons.

The City of Cheyenne received about \$2,360,000 in HUD Community Development Block Grants funds over the last four years. The City used a portion of these funds to assist low-income families perform needed repairs to their homes and in purchasing a home. In addition to these funds, the City received about \$650,000 in HUD HOME grants through the Wyoming Community Development Authority. Again, the City used these funds to assist low-income families in purchasing a home and in helping, existing low-income homeowners perform needed repairs to their homes. The City provided additional funds from its general fund. These funds were required as a match to the HOME funds plus additional funds to further these programs.

The Director of the HUD Rocky Mountain Field Office of Community Planning and Development advised the Rocky Mountain Office of Inspector General for Audit that they had concerns about the activities of the City of Cheyenne Office Housing and Community Development, related to providing housing rehabilitation grants and/or loans and down payment assistance to first time homebuyers. The Director of the HUD Rocky Mountain Office of Community Planning and Development advised that their Office would also be performing a monitoring review of the City of Cheyenne's CDBG activities and requested that we accompany them on the review.

During our on site review, the HUD Rocky Mountain Field Office of Community Planning and Development performed a monitoring review of the City of Cheyenne's Community Development Block Grant activities. They issued a report to the City on September 6, 2000. The report identified similar items identified in our report. Before the issuance of the report, the HUD Rocky Mountain Field Office of Community Planning and Development restricted the City's access to HUD funds. Specifically, HUD required that the City submit invoices for HUD's review and approval before allowing the draw down of funds. Due to the review by HUD, we elected not to perform a review of the City's entire Community Development activities. Instead, we relied on their review to identify other areas of noncompliance.

Also during our on site review, the Wyoming Community Development Authority performed a monitoring review of the City of Cheyenne's HOME grant. The Wyoming Community Development Authority monitoring again identified a number of issues similar to our report. The Wyoming Community Development Authority advised the City of Cheyenne, in a report dated July 17, 2000, that their review identified a number of concerns where the City's program failed to comply with its HOME grant agreement. Specifically, the City's program was not administered consistent with the City's program Policies and Procedures and did not comply with Federal Regulations. The Wyoming Community Development Authority advised that the City would be required, at a minimum, to reimburse the HOME program a total of \$49,890.64. In addition, based upon the substantial number of findings, no HOME funds will be available to the City of Cheyenne until such time as the City of Cheyenne can provide cohesive and complete documentation that it has resolved the problems identified in the Wyoming Community Development Authority report.

Audit objectives

Due to the Rocky Mountain Field Office of Community Planning and Development and the Wyoming Community Development Authority reviews, we limited our review to the City's rehabilitation of homes and assistance to first time homebuyers. Specifically, we want to determine if the City of Cheyenne provided grants and/or loans for housing rehabilitation and first-time homebuyer down payment assistance consistent with the City's and HUD's requirements.

During the audit, we examined City of Cheyenne Office of Housing and Community Development records on the assistance provided. In addition, we examined the City's accounting records related to the assistance provided and interviewed appropriate City staff.

The City could not provide us with summary records of the assistance provided. However, the City did maintain a file folder for each family assisted. We used this information to develop a database of the assistance provided. We also selected a judgmental sample of files to provide examples of the issues identified in the report.

Scope and Methodology

Our audit generally covered the period of January 1997 through April 2000 and we extended the period as necessary to fully accomplish our

objective. We performed our fieldwork in May and June 2000 and in August 2000.

Generally Accepted
Government Auditing
Standards

We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

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Finding

Inadequate Management Controls Over HUD Funded Programs

Under the City of Cheyenne's homeowner rehabilitation and first time homebuyer assistance programs, the City's Office of Housing and Community Development Administrator and staff made unapproved program disbursements; did not adequately document or justify the assistance to be and/or actually provided, did not record and collect all program loans; and inappropriately provided assistance to persons with a conflict of interest. As a result, the City provided \$952,080 in unauthorized funding and failed to collect on over \$279,891 in loans, and could not justify the need for assistance provided. Therefore, these limited funds were not available to assist other needy families. This occurred because, the City failed to provide adequate management controls and oversight of the Office of Housing and Community Development prior Administrator, staff, and its operations.

HUD requires grantees maintain financial management systems

Under the HUD funded Community Development Block Grant and HOME programs, the City is obligated to comply with specific HUD regulations in carrying out their program. Under provisions of Title 24 of the Code of Federal Regulation, Part 85.20, the City is to establish and maintain financial management systems that provide for effective control and accountability for all grant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that the monies are used solely for authorized purposes. The City has the primary responsibility for employing whatever form of organization and management techniques necessary to assure proper and efficient administration of its Federal awards.

Part 570.201 and 202, and Part 92.205, of Title 24, Code of Federal Regulations identify homeowner rehabilitation assistance and homebuyer down payment assistance as eligible activities. While the HUD regulations do not restrict the amount of funding that a grantee can provide to each program participant, the City may establish their own assistance limits.

Review focused on two key HUD funded programs

Our review focused on two key HUD funded programs. These were the City's:

4. Housing Assistance and Neighborhood Development program (commonly referred to as the HAND program), and
5. Cheyenne Housing Opportunity Program (commonly referred to as the CHOP program).

During the audit period, the City expended \$2,118,254 under its Housing Assistance and Neighborhood program assisting 133 families and provided \$671,399 under its Cheyenne Housing Opportunity Program assisting 167 families.

HAND program provisions

For the HAND Program, the City Council authorized it in October 1990 by City Council Resolution 3182. The City's resolution imposed the following program restrictions, amongst others, on the assistance provided:

4. The recipient must be owner and resident of the unit being considered for rehabilitation for at least six months.
5. The staff may exceed the maximum grant amount when completion of essential work items is required to bring the house to minimum standards (**not to exceed \$500 without the Mayor's approval**) [emphasis added].
6. The Mayor may approve any combination of grant or loan.
7. Priorities for grants and loans are generally assigned on a first come first serve basis.

CHOP program provisions

For the CHOP Program, we could not identify specifically when or under what authority the City's Office of Housing and Community Development established the Program. Based on available documents, the program provided down payment assistance of up to \$5,000 for low to moderate-income first time homebuyers. During the first years of the program, assistance was provided up to \$23,000. Contrary to the City Council's Resolution for the HAND Program requiring a homeowner to live in the home for six months, the City's brochure for the CHOP program states that if major repairs over \$1,000 are needed to the newly purchased home, the City would fund repairs through the HAND Program.

The Office of Community Development was responsible for administering these programs

The City's Office of Housing and Community Development had the overall responsibility for administering these two programs. This office received, reviewed, approved applications, and recommended funding for grant and/or loan assistance under the two programs. In addition, the Office staff determined specifically the assistance to be provided. Based on requests from the Office, the Mayor signed an authorization letter detailing the items funded and the total amount of assistance authorized. Afterwards, the Office worked with the approved applicant in obtaining the needed rehabilitation work or property acquisition assistance.

Inadequate implementation and administration of the two programs

Our review disclosed significant deficiencies in the City's administration of the HAND and CHOP programs. These were in the following four main areas:

4. Unapproved program disbursements;

5. Deficient identification of assistance to be and/or actually provided;
6. Unrecorded and uncollected program loans; and
7. Conflict of interest violations.

These four areas are detailed below.

1. Unapproved Program Disbursements

\$952,080 expended
without the Mayor's
authorization

The City's Office of Housing and Community Development authorized and disbursed funds totaling \$952,080 in excess of the amount approved by the City Mayor. For the Housing Assistance and Neighborhood Development (HAND) program, 127 out of 133 families received assistance in excess of the Mayor's authorization. For the Cheyenne Housing Opportunity Program (CHOP), 110 of the 167 families assisted received assistance in excess of the Mayor's authorization.

Under the HAND program, the Housing and Community Development Office approved and expended \$739,524 for the 73 assisted families, in excess of the Mayor's authorized amount. The excess assistance per participant ranged from \$25 to over \$46,000.

4. For example, the Mayor designee authorized HAND rehabilitation funds of \$16,000 for the rehabilitation of the home owned by a relative of the Mayor. According to the purchase orders in the files, the Housing and Community Administrator expended about \$30,836. However, file notes by the staff identified the City actually expended about \$39,581.

We could not determine the exact amount expended because the staff advised they did not place all purchase orders in the file nor did the staff perform monthly reconciliation of funds expended. The staff also did not maintain a ledger in each file of all expenses. Instead, they would total the purchase orders of the funds expended after the work was completed.

5. In another example, the Mayor authorized \$24,000 of expenditures. However, the file indicates that the Housing and Community Development Administrator and staff approved and expended \$40,632 or \$16,632 over the authorized amount. Again, these additional expenses were for items not on the original request nor authorized by the Mayor.

In addition, the City Office of Housing and Community Development administrator and staff authorized and approved assistance to fifty-four families without the knowledge or required approval of the Mayor. The Office expended about \$147,230 in HAND funds to assist these families.

Of the \$952,080 paid in excess of the amount authorized by the Mayor, about \$65,326 was paid as part of City's CHOP assistance program. The unauthorized payments, made from the HAND program, provided funds for appliances and repairs for newly purchased homes. Again, these additional expenses were for items not on the original request nor authorized by the Mayor. Furthermore, the assistance was contrary to the City Council's established HAND program requirement. Specifically, the program recipient is a homeowner that has lived in the home for at least six months.

Persons on waiting list not served in order of application dates

The City programs also required that assistance be provided on a "first come, first serve basis." Our review noted that people on the waiting list were not served first, nor were the deviations explained. We reviewed the families receiving CHOP assistance and identified that they received HAND rehabilitation assistance before those on the waiting list.

4. For example, one person received \$4,829 in CHOP down payment assistance. The person then received \$12,204 in HAND funds for rehabilitation of the newly purchased home. According to documents in their file, the home did not need repairs to meet the City's minimum property standards, nor did the person submit an application for the rehabilitation assistance. We identified that at least three other families that also received CHOP and rehabilitation assistance without being on the waiting list.

Because the City expended more program monies than authorized, the City reduced the amount of funds available to help other eligible program applicants.

2. Deficient Identification of Assistance to Be and/Or Actually Provided

Program guidelines limited allowable repairs

According to the City's program guidelines, the repairs identified should be limited to that necessary to bring the home in compliance with the City's minimum housing standards. The City published their minimum rehabilitation standards in January of 1993. Our review identified that these standards were still in effect during our audit period. The Office of Housing and Community Development staff prepared an authorization letter, for the Mayor's approval. The authorization letter detailed the items in need of repair and the amount of funding requested to rehabilitate the home. Based on available documents, we could not determine the need for repairs or the reasonableness of the funds requested. In addition, the City records failed to identify that inspections were performed to confirm completion of the actual repairs.

4. For example, the Administrator requested that the Mayor approve repairs totaling \$24,000 that included replacement of kitchen cabinets and new flooring. However, the inspection report does not identify why these items fail to meet the City's minimum property standards nor does the report provide a cost estimate.
5. In another file, the Administrator authorized expenditures of \$12,204 even though the inspection report failed to identify any needed repairs. Moreover, the Administrator's letter to a lender on the property advised that the City would be performing repairs. The City's assistance was also for a new homebuyer, contrary to the City's HAND resolution requiring that the homeowner live in the home for at least six months.

City records failed to identify what work was to be performed and/or exactly provided.

Under the City's Housing Assistance and Neighborhood Development program, the Office of Housing Community Development made program disbursements based upon informal and inconsistent records. These records failed to support the unapproved funding or justify direct purchases that were made by some program participants.

4. For example, the Program Administrator approved payments to participants based on handwritten receipts and letters requesting reimbursement. The City made payments of \$3,500 and \$3,450 to a participant for contractor work. We found no authorization for the work, details of the work to be performed or an inspection report of the completed work. However, the Administrator approved both payments. The supporting documents for these payments consisted of a hand written receipt and the second based on a letter requesting a refund.
5. In another example, the Administrator, who also participated in the program, approved payments to her spouse. The file contained the Administrator's approval for the payment of \$1,610 to a local vendor for materials purchased by her spouse. Again, the file contained no authorization for these work items, details of work to be performed, or an inspection report of the completed work.

Participants made direct purchases from vendors

The Program Administrator allowed program participants to purchase materials and supplies directly from local vendors and obtain payment for the charges by the City. The Program Administrator created a form, authorizing participant to directly purchase material from local vendors.

4. For example, using this form the Administrator authorized herself and her spouse to purchase up to \$3,528 of material and supplies from a local vendor. An Office of Housing and Community Development staff member on behalf of the Administrator signed the authorization.

4. In addition, the Program Administrator and spouse purchased about \$3,428 in material and supplies. The purchase includes a cordless drill and power saw. Again, the files contained no authorization for the work to be performed, detailed of actual rehabilitation work to be performed or an inspection report of the completed work. The City files did not contain any documentation to show that the tools were returned after the Administrator's rehabilitation work was completed to the Office of Housing and Community Development for other participant's use.

Under the City's program procedures, the City is unable to identify exactly what rehabilitation work was to be performed and whether such work was actually performed. In addition, the City could not substantiate that the materials purchased directly from vendors by program participants were properly used under the rehabilitation program.

3. Unrecorded and Uncollected Program Loans

Assistance not secured by liens on the assisted property

The City's programs required that assistance provided as a loan be secured by a mortgage on the particular property. We identified that the City generally required the families to sign a promissory note and mortgage for the assistance, and the City generally perfected the mortgage. However, the amount of the mortgage was limited to the amount approved by the Mayor not the actual amount expended.

4. For example in one case, the Mayor approved \$24,000 of assistance and the Housing and Community Development staff perfected a \$24,000 lien on the property. However, the City provided over \$34,000 in assistance. The additional assistance was neither secured by the property nor included in the promissory note or the mortgage.
4. The mortgage for the assistance to the Program Administrator, who participated in both assistance programs, was not for the full amount authorized by the Mayor or the actual amount expended. The Mayor authorized \$3,500 for CHOP assistance and \$16,500 under the HAND program. However, no lien was filed for the CHOP assistance and only \$8,282 was filed for the HAND program assistance. Moreover, the City expended a total of \$26,112 or \$17,830 unsecured by the mortgage.

In addition, the Administrator, without the knowledge or authorization of the Mayor, approved modifications to her loan. The Administrator modified her mortgage agreement to defer any payments for 2 years.

\$279,981 in loans not being collected

Based on the Mayor's approval letters, we identified 38 participants, under the HAND program, that needed to repay the loan portion of their program assistance. According to the City's Office of Housing and

Community Development records, the Office did record and were collecting on 11 of the 38 loans. The City's records did not identify the remaining 27 loans totaling \$279,981, nor had the staff taken action to collect these funds due to the City.

4. Conflict Of Interest Violations

A conflict of interest existed for three of the assisted families

Our review identified three persons with a conflict of interest that received financial assistance. Under the HUD Community Development Block Grant and HOME Programs, persons with a conflict of interest may not receive financial aide, without HUD's prior authorization.

The Administrator failed to exempt herself from certain financial transaction

HUD approved an exemption for the Program Administrator's conflict of interest. However, the Administrator failed to exempt herself from financial transactions related to her own assistance, as promised in the City's exemption request to HUD.

4. For example, the Administrator generated fourteen of the twenty-seven purchase orders for her house and of these, she authorized nine of the fourteen totaling \$2,597.97 or about 11.5 percent of the total funds provided. In addition, the Administrator authorized her spouse to directly purchase items for the repair of their home. These items included a number of power tools.

The Administrator also approved payments to her spouse for work on other participant's homes. These payments were supported by hand written receipts. Based on available evidence, we could neither determine the need for the work items or the completion of the work items.

5. The other two people assisted with a conflict of interest were a relative of the Mayor and a member of the City Community Development Committee. Both received funds in excess of the authorized amounts. In addition, the member of the advisory City Community Development Committee received assistance in excess of the appraised value of the repaired home. We could not fully review the repairs to the Committee member's home because the original files could not be located during our site work.

Program administration deficiencies stem from three basic causes

These deficiencies in carrying out the City's homeowner rehabilitation and first-time homebuyer assistance programs clearly point out that the City had very limited assurance that the programs were implemented in conformity with the program designs, and were effectively and efficiently conducted. The City's inadequate administration is attributed to three main causes.

First, the City failed to provide adequate oversight

First, the City failed to provide adequate oversight over the City's Office of Housing and Community Development. The City Attorney had the primary oversight function over the Office of Community Housing and Development. However, the City Attorney considered her supervisory role to consist primarily of ministerial tasks such as signing leave slips, monitoring travel, and answering legal questions when asked. The sole responsibility for implementing the two programs was left entirely to the Office of Housing and Community Development Administrator.

Therefore, the City's oversight of the Office of Housing and Community Development was almost nonexistent. The City did not establish the most basic management controls over the activities of the Office of Housing and Community Development or its staff, such as:

4. Requiring monthly activity reports,
5. Requiring a reconciliation of funds expended to those reported to HUD,
6. Limiting access and authorization to the City's purchase order system, and
7. Performing periodic reviews of the Office of Housing and Community Development operations and program administration

Secondly, the Program Administrator had full control over the programs and funds

Second, the City relied on the Program Administrator to manage and operate the programs as intended. Based on this reliance, the City vested all main functions and controls with the Administrator. The Administrator performed or controlled these main program functions:

4. Received, reviewed and processed applications for program assistance;
5. Prepared and obtained assistance funding authorization from the Mayor;
6. Authorized the amount and type of assistance to be provided;
7. Maintained all program operating and administrative files;
8. Determined what loans were to be granted, what mortgage documents, amounts and liens would be established for the loans, and controlled the nature and extent of collections for the loans;
9. Authorized, approved and forwarded purchase orders and related documents to the City's Accounting Department for payment; and
10. Controlled and maintained all records relating to the participation of the Administrator in the two programs.

Simply, the Administrator controlled all functions of administering the program and maintaining program operating and accounting records, and files. The basic component of any management control structure would be to separate these functions.

The staff did not document justifications for decisions

The Program Administrator and staff did not document the justification for providing unapproved funding, not recording loans, modifying loan agreements, or other items noted above. The staff advised that over the years the Office created practices for doing business. These practices were neither approved by the Mayor nor developed into written policies.

The Office maintained no summary information or ledgers of assistance provided nor did they perform reconciliations of the assistance provided. The staff advised that the Administrator had discretionary authority to operate the programs.

4. For example, the administrator authorized HAND assistance to four persons without the person being on the waiting list and one of the four did not complete an application for assistance. The Administrator also approved additional work requests six months to a year after the completion of the rehabilitation.

The staff advised that to their knowledge the City performed no review of their operations in the last five years.

The only control in existence over the programs' operations was the disbursing of funds by the City Accounting Department. However, the only check in place was to determine that the disbursement was documented, authorized by the Program Administrator, and that budgeted funds were available in the particular program accounts.

Thirdly, the City failed to maintain detailed records

Thirdly, the Office of Housing and Community Development failed to maintain detailed records and files relating to each individual participant activity. Not all required documents and records were maintained while some participant files could not be located. In addition, the files failed to support what detailed rehabilitation work or assistance was needed, what work or assistance was to be performed, and whether the authorized activities were correctly and properly conducted.

At least 120 families not served

Since the City provided \$952,080 in unauthorized funding and failed to collect on over \$279,891 in loans, these limited funds could not be used to assist other needy families. We estimate that the mismanagement prevented the assisting of at least 120 families, or twice the number of families on the current waiting list.

The City had no assurance on the operations of these programs

Due to the City's lack of oversight, the City had no assurance that the HAND and CHOP programs operated in an effective and economical manner, or that limited program resources were used according to City's requirements.

City provided no oversight

During our review, it became clear that the City provided no oversight of the Office of Housing and Community Development or the staff's activity. Based on HUD's and our preliminary reviews, we briefed the City Attorney, on our preliminary concerns. The City Attorney took immediate actions related to the Office of Housing and Community Development. First, the City advised all vendors that open purchase orders for participants were canceled. Secondly, the City Attorney must approve all expenditure of funds. In addition, the City limited assistance under the HAND and CHOP program to emergency assistance.

The City also hired a new Administrator. The new Administrator's first task necessitated completion of the City Consolidated Plan to ensure receipt of Community Development Block Grant funds for the next year. In addition, the new Administrator has been reviewing the most recent participant folders to obtain a better understanding of the problems. The new Administrator plans to use this knowledge to develop new program guidelines and internal management controls over the programs.

Both State and HUD reviews found similar City Program administrative deficiencies

As stated in the Introduction Section of this report, the Wyoming Community Development Authority also performed a review of its HUD funded HOME grants to the City. Their report identified similar concerns on the lack of management and oversight by the City. In addition, they identified \$49,988 of ineligible HOME expenditures.

The HUD Rocky Mountain Field Office of Community Planning and Development conducted a compliance monitoring review of the City's HUD funded program and found additional problem areas in the expending of HUD provided Community Development Block Grant funds. HUD also found similar lack of management controls and oversight by the City of Cheyenne.

The mismanagement of the City of Cheyenne's Office of Housing and Community Development resulted in both Wyoming Community Development Authority and HUD restricting the City's ability to draw down funds for these programs.

Auditee's Comments

The Auditee concurred with the finding. In addition, the Auditee provided substantial documentation related to actual and proposed changes to the programs referred to in this report. We believe if these changes are fully implemented the concerns raised in this report should be corrected. (see Appendix A for a

The City also requested that we provide them with a listing of loans identified during the audit, to expedite the servicing and collection of the loans. We are providing the list under a separate cover.

Recommendations

We recommended that the Rocky Mountain Field Office of Community Planning and Development require the City to:

- 1A. Identify the unapproved funding provided to participants and attempt recovery or at a minimum increase the lien on the property to the actual amount expended.
- 1B. Record all loans in the City's accounting records and start collecting amounts owed.
- 1C. Establish new programs guidelines and obtain City Council approval for the guidelines.
- 1D. Establish adequate management controls and oversight of the Office of Housing and Community Development. This would also include the proper separation of management and record keeping duties and functions within the Office of Housing and Community Development.

We also recommend that that the HUD Rocky Mountain Field Office of Community Planning and Development:

- 1A. Resolve all findings and concerns noted in HUD's monitoring review of the City's Office of Housing and Community Development program activities.
- 1B. Evaluate the City's Office of Housing and Community Development newly developed policies and program procedures for compliance with HUD's regulations and sound business practices.
- 1C. Maintain the restriction on drawing down HUD funds until, the City can demonstrate program activities comply with HUD regulations and implantation of sound business practices.

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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit objectives. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, 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.

Management controls assessed

We determined the following management controls were relevant to our audit objectives. Specifically, controls that ensure:

- Funding for rehabilitation and first time down payment assistance complied with City of Cheyenne and HUD's requirements,
- Recording and collecting on loans, and
- Decisions are adequately documented and appropriately approved.

Assessment procedures

We used the following audit procedures to evaluate the management controls:

- Review the City program requirements,
- Review of participants file folder and related disbursement records,
- Interviews with appropriate City personnel, and
- Evaluation of established policies and procedures for implementing the City's programs.

Significant weaknesses

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained and maintained, and fairly disclosed in reports. Based on our audit, we believe the following items are significant weaknesses:

- The City's lack of adequate records to support program activities and decisions,
- The City's lack of oversight of the programs activities and staff, and
- The City's assignment of all major program oversight and activities in the Administrator.

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Follow Up on Prior Audits

The Rocky Mountain Office of Community Planning and Development performed a monitoring review of the City of Cheyenne's Community Development Block Grant activities. They issued a report to the City on September 6, 2000. The report identified similar items identified in our report. Before the issuance of the report, the Rocky Mountain Field Office of Community Planning and Development restricted the City's access to HUD funds. Specifically, HUD required that the City submit invoices for HUD's review and approval before allowing the draw down of funds.

The Wyoming Community Development Authority performed a monitoring review of the City of Cheyenne's HOME grant. The Wyoming Community Development Authority monitoring report, dated July 17, 2000 again identified a number of issues similar to our report. The Wyoming Community Development Authority advised the City of Cheyenne's that their review identified a number of concerns were the City's program failed to comply with its HOME grant agreement. Specifically, the City's program was not administered consistent with the City's program Policies and Procedures and did not comply with Federal Regulations. The Wyoming Community Development Authority advised the City that will be required at a minimum to reimburse the HOME program a total of \$49,890.64. Also, based upon the substantial number of findings, no HOME funds will be available to the City of Cheyenne until such time as the City of Cheyenne can provide cohesive and complete documentation that it has resolved the problems identified in their report.

This is the Office of Inspector General's first audit of the City of Cheyenne.

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Appendix A



OFFICE OF THE MAYOR
2101 O'Neil Avenue - #310
Cheyenne WY 82001
(307) 637-6300
(307) 637-6378 FAX

January 18, 2001

Mr. Robert C. Gwin
District Inspector General for Audit
U.S. Department of Housing and Urban Development
Rocky Mountains District Inspector General for Audit
633 17th Street, North Tower, 14th Floor
Denver, CO 80202-5452

Dear Mr. Gwin:

Enclosed is the City of Cheyenne's comments to the draft report that was prepared by HUD's Office of Inspector General on the Cheyenne Housing and Community Development Office activities. The City of Cheyenne does concur with the factual aspect of the Audit Report. Within the enclosed comments, the City addresses corrective actions dealing with

- excessive and/or unauthorized program disbursement,
- deficient identification of assistance to be and/or actually provided,
- unrecorded and uncollected program loans, and
- conflict of interest violations.

The City requests that the Office of Inspector General provide it with the list of loans identified during the audit process. This will assist the City in expediting servicing and collection of the loans.

Thank you for your cooperative working relationship with the City of Cheyenne. If additional information is needed, please contact Tina Carroll, Director, Cheyenne Housing and Community Development Office, at (307) 637-6287.

Sincerely,

A handwritten signature in cursive script that reads "Jack R. Spiker".

Jack R. Spiker
Mayor

Attachments: City of Cheyenne Comments

cc: City Attorney
Tina Carroll, Director, Cheyenne Housing & Community Development Office

(307) 637-6200 • TDD (307) 637-6232 • FAX (307) 637-6454

City of Cheyenne Attachment:

INTRODUCTION . . .

The Cheyenne Housing and Community Development (H&CD) Office's two programs, (HAND [Housing Assistance and Neighborhood Development] and CHOP [Cheyenne Homeownership Opportunities Program]), were audited through the Office of Inspector General. These programs have been evaluated and revised by the current H&CD Office Director.

In the case of CHOP, a community task force was formed to evaluate the program; create standards, policies, and procedures; streamline the program; create a checks-and-balances for accountability; and present the program to the Cheyenne City Council members for approval. The Cheyenne City Council approved the program on November 27, 2000. (Attachment A)

The HAND Program has been evaluated and revised by current H&CD Office staff. (Attachment B) It is a goal of the H&CD Office Director to form a community task force, within the first quarter of 2001, to evaluate the program; create standards, policies and procedures; streamline the program where necessary; create a checks-and-balances for accountability; and to present the program to the Cheyenne City Council.

In addition, programs are now administered as individual entities and do not cross over into other programs. The following is what has been put in place since June 2000:

HAND (Housing Assistance and Neighborhood Development)

Established in February 1989 and revised in October 1990. This program has been approved by the Cheyenne City Council. HAND is utilized for emergency housing rehabilitation to homeowners needing immediate assistance with furnace, roof, plumbing, etc. The turn-around time for assistance is approximately two weeks. There is no longer a waiting list for this assistance.

- ✓ Guidelines are in place that specify program purpose, eligibility, standards, property value, funding, and conflict of interest.
- ✓ Standards are in place that describe the minimum qualifications for assistance.
- ✓ Policies are in place that address and explain the application cycle, income eligibility, amount of assistance provided, interest rate, and recapture techniques.
- ✓ Procedures provide a step-by-step overview of the administration of each file: applicant's completion of the HAND Application Packet to a closing letter being sent to the homeowner.
- ✓ Application Packet consists of external and internal documents:

- ❑ *External*: Notice to Applicant; Application; Memo of Understanding; Guidelines, Policies and Procedures; What to Expect; Financial Privacy Notice; Authority to Release Information pertaining to credit, mortgage, employment, deposits and public assistance; Smoke Detector Questionnaire; and Lead-Based Paint Brochure. *Internal*: Information Request (which is completed by the client); File Set-Up and Closing check lists; Lead-Based Paint Notification; Initial Inspection Form, to include photos and cost estimates on work; Mayor Authorization Letter; Bid Letter; Bid Award Letter; Contractor/Owner Contract; Bid Denial; Site Specific Checklist; Completion Statement; and Final Inspection Form, to include photos.

- ✓ A master spreadsheet has been established that indicates dollars expended from program funds.

- ✓ Individual spreadsheets are established and placed in the files, per location, that indicates work being done, lowest bid and dollars expended.

- ✓ Logs are placed in the individual files indicating dollars expended.

The Cheyenne Housing and Community Development Office does have a current waiting list for its HOME Program, which provides greater housing rehabilitation assistance. The HOME Program funds are not to exceed \$25,000 per property. Because of a suspension of funds placed on this program by the Wyoming Community Development Authority (WCDA), due to their May 2000 Monitoring Report, and the fact that the waiting list consists of 18 homeowners, the H&CD Office Director is going to evaluate the list on a one-on-one basis and determine if assistance could be provided through the HAND Program. The H&CD Office has not received a definite date by WCDA on when the suspension will be released. By moving assistance from HOME to HAND, homeowners would receive housing rehabilitation; but, would be limited by the HAND program and would not be eligible for assistance for five years.

CHOP (CHEYENNE HOMEOWNERSHIP OPPORTUNITIES PROGRAM)

Although not formally established until November 2000, this program has been operating for several years with a brochure and WCDA's HOME Program application as the guiding instruments. This program is utilized to assist first-time homebuyers purchase a home within the City limits. Funding is provided to assist with down payment and closing costs. The H&CD Office Director established a community task force in October 2000 to evaluate prior program implementation and create a program that would be approved by the Cheyenne City Council. This program was approved by the Cheyenne City Council on November 27, 2000.

- ✓ Guidelines are in place that specify program purpose, eligibility, standards,

property value, funding, and conflict of interest. (*This is an internal document.*)

- ✓ Standards are in place that describe the minimum qualifications for assistance.
- ✓ Policies are in place that address and explain the disbursement of funding cycle, requirements for property location, HUD and City standards, Lead-Based Paint, home inspections, home repairs, the income eligibility, pre-qualified by a lender, H&CD Office Loan Committee, release of funds, amount of assistance provided, and recapture techniques.
- ✓ Procedures provide a step-by-step overview of the administration of each file: applicant's pre-qualification with a lender to a closing letter being sent to the homeowner.
- ✓ Application Packet consists of:
 - ☐ CHOP Application form, Gender/Ethnicity form, Authority to Release Information, Lead-Based Paint information, a Lender Checklist, Uniform Residential Loan Application, Request for Verification of Employment, H&CD Office Checklist, Lead-Based Paint Notification Receipt, Applicant Pre-Qualification Letter, Site Specific Checklist, Home Inspection Reports (initial and final), Mortgage, and Promissory Note.
- ✓ A master spreadsheet will be established that indicates dollars expended from program funds.
- ✓ Individual spreadsheets will be established and placed in the files, per location, that indicates dollars expended for down payment/closing costs.
- ✓ Logs are placed in the individual files indicating dollars expended.

Since June 2000, the Cheyenne Housing and Community Development Office Director has viewed CHOP as a HOME Program that does not utilize CDBG funds. This program has not been active since June 2000, due to a suspension of funds placed on this program by the Wyoming Community Development Authority (WCDA). The suspension was placed because of WCDA's May 2000 Monitoring Report findings. The H&CD Office receives approximately three calls daily on the availability of CHOP funds. Due to the need in the community, the H&CD Office Director will rethink solely using HOME Program funds and consider utilizing CDBG funds (\$110,000) that have been rescinded for allocation for the purpose of CHOP.

CONCURRENCE OR NONCONCURRENCE . . .

The City of Cheyenne concurs with the factual aspect of the Audit Report.

ANY FACTS NOT PREVIOUSLY KNOWN . . .

The City of Cheyenne's Housing and Community Development Office has developed a working relationship with the Office of Inspector General (OIG) and will continue to nourish that relationship. The H&CD Office is developing a database on prior files discrepancies and will share all information with the Office of Inspector General.

The H&CD Office would request that the OIG provide it with the listing of loans that was identified during the audit process.

Corrective Actions . . .

Four findings were acknowledged in the Audit Report for the City of Cheyenne to address and describe corrective actions being taken:

- Excessive and/or unauthorized program disbursements;
 - Deficient identification of assistance to be and/or actually provided;
 - Unrecorded and uncollected program loans; and
 - Conflict of interest violations.
- ***Excessive and/or Unauthorized Program Disbursement:***

HAND . . .

To eliminate this discrepancy with the HAND Program, the City of Cheyenne's Housing and Community Development (H&CD) Office has implemented a partnership, expanded information for the Mayor's Authorization Letter, set parameters with contractors, eliminated contractors and suppliers prior administration's agreement, established recapture procedures, database indicating program dollars expended, created an internal checks and balances, and created procedures that must justify issuance of counter checks.

- The H&CD Office utilizes a private housing inspection company, CWN Inspections, LLC., to provide an initial home inspection that details deficiencies addressing safe, decent and sanitary conditions, and Cheyenne's "Minimum Housing Rehabilitation Standards." CWN is providing the H&CD Office with a detailed inspection report, which includes cost estimates for repairs, cost estimates on relocation if needed, and photos of the property.

- The Mayor is provided an Authorization Letter for his signature. This letter provides information on the homeowner's eligibility, scope of work, recapture method (grant or loan), recommendation, and comments when necessary. Additionally, an initial inspection with cost estimates is attached. This letter serves two-fold: Authorization to proceed, and authorization to expend designated dollars on the specified property.
- Contractors are given a date and time to view the work for bidding. H&CD Office staff and CWN Inspections are present to assure that all contractors receive the same Scope of Work and to answer any questions. The lowest bid is selected, unless the homeowner wishes to pay the difference between bids. Once a contractor is selected, expenditures will not exceed the bid unless a Change Order is implemented. Change Order is viewed as an exception, not the rule, and will be scrutinized. No Change Order work may proceed until H&CD Office has discussions with the homeowner, a Modification of Mortgage is executed by the homeowner, and a Mayor Authorization Letter is signed to proceed.
- Contractors and suppliers (i.e. Sutherlands, Mead Lumber, Capital Lumber and The Building Center) have been contacted and told that homeowners participating in H&CD Office programs are not authorized to purchase materials for reimbursement. The forms used by the prior administration that allowed this process have been destroyed.
- Homeowners are required to sign a Mortgage and Promissory Note, prior to any work being implemented, on the total cost of the housing assistance. As stated, if a Change Order is approved, a Modification of Mortgage is executed. Depending on the homeowner's income eligibility for assistance, a deferred mortgage that depreciates \$1,000 annually or a 5% interest rate installment loan is initiated for recapture of dollars expended. The determination of deferred mortgage or loan is based on HUD Section 8 Income Table: Deferred mortgages will be provided to households that qualify below the low income, 50% median for the Cheyenne area. Loans will be provided to households that qualify above the low income, 50% median, and are equal to or below the moderate income (80% median) for the Cheyenne area.
-
- A database has been created indicating funds expended, applicant name, income, and property location. This will provide an accurate account of program funds at any given time. In addition, a log is placed in each file indicating contractor, work done, and dollars expended.
- One person is no longer responsible for requisitions, purchase orders, approvals, and record keeping for programs administered by the Housing and Community Development Office. The program designates who assists the customer (homeowner), file documentation, implementation of the program, and initiation of payment requisition requests. The HAND Program is coordinated through the H&CD Office's Office Manager position. The H&CD Office Director and the City Attorney must approve all correspondence and purchase orders. The current H&CD Office Director has met with the Purchasing Director and City Treasurer to encourage open communication between the departments and the H&CD Office and to encourage these

departments to question any area that is not explained properly. These procedures (one person no longer being solely responsible, approval by the City Attorney, H&CD Office Director and Mayor, and open communication between departments) create an internal checks and balances, and was not in existence with the prior administrator.

- All disbursements must be processed through procedures established by the City of Cheyenne. Counter checks are not created, unless written notice is provided to the H&CD Office by the City Attorney or Mayor.

CHOP . . .

To eliminate this discrepancy with CHOP, the City of Cheyenne's Housing and Community Development Office established a "First-Time Homebuyer" task force, implemented a partnership with community lenders, communicated with realtors and lenders, created a H&CD Office Loan Committee, expanded information for the Mayor's Authorization Letter, created database indicating dollars expended, created internal checks and balances, and established consistent recapture procedures.

- A "First-Time Homebuyer" task force was formed consisting of the President of the Cheyenne Board of Realtors, a representative from Fannie Mae, a Cheyenne City Council member, a lender, a representative from the H&CD Office Advisory Council and a prior recipient of CHOP funds. The task force was charged with evaluating prior management of the CHOP and establishing a program that would be approved by the Cheyenne City Council.
- A partnership is now in place with Cheyenne lenders to assure there is sharing of documentation, instead of duplication of documentation. Lenders are required to provide documentation to the H&CD Office on
 - ✓ pre-qualification of applicant
 - ✓ the ability of applicant to provide \$750 personal funds toward purchase of home
 - ✓ information to applicant on the requirement to complete Homebuyer Education Course
 - ✓ Fannie Mae Residential Application Form: Verification of Employment or Alternative Documentation (last 2 years W2 forms), and Deposit Verification or Alternative Documentation (last 2 months bank statements)
 - ✓ property appraisal
 - ✓ confirmation that home to be purchased meets WCDA afford ability requirement
 - ✓ confirmation that home to be purchased is not in flood plain
 - ✓ title commitment or owner encumbrance report
 - ✓ homeowner's insurance declaration page
 - ✓ good faith estimate

- ✓ sales agreement

The lender schedules closing and notifies the H&CD Office of date, time and location; and ensures that the following actions are completed:

- ✓ H&CD Office is added to the title commitment
- ✓ Signed, notarized mortgage is sent to the H&CD Office
- ✓ Signed promissory note is sent to the H&CD Office
- ✓ HUD 1 form is provided to the H&CD Office
- ✓ Proof of homeowner's insurance is provided to the H&CD Office
- ✓ Proof of Homebuyer Education Course completion

The Cheyenne Housing and Community Development Office has refined its file checklist for CHOP to encompass application through original mortgage and promissory note off-site storage, and to include an optional form on demographics and the H&CD Office Loan Committee review, which was not incorporated in program files in the past.

- The Housing and Community Development Office Director presented the new CHOP, as developed by the task force and approved by City Council, to Cheyenne realtors and lenders on December 14, 2000. The director stressed the partnership between the H&CD Office and community lenders, that applications would not be accepted by realtors, and that assistance payment would only be made payable to the closing agent (lender or title company).
- The H&CD Office Loan Committee, which consists of a City Council designee, a representative from the Mayor's Office, two representatives from the H&CD Office Advisory Council, and a representative from the City Attorney's Office, has been approved by the Cheyenne City Council. The H&CD Office Director will sit as a non-voting, ex-officio. This Loan Committee was formed to meet weekly, as needed, to review and approve or reject CHOP applications. A letter of approval or rejection is required from the Loan Committee for the H&CD Office to proceed with an applicant.
- The Mayor will be provided an Authorization Letter for his signature. This letter will provide information on the applicant's eligibility, Loan Committee recommendation, and recapture method. This letter will serve two-fold: Authorization to proceed, and authorization to expend funds.
- A database will be created indicating funds expended, applicant name, income, and property location. This will provide an accurate account of program funds at any given time.
- One person is no longer responsible for requisitions, purchase orders, approvals, and record keeping for programs administered by the Housing and Community Development Office. The program designates who assists the customer (homeowner), file documentation, implementation of the program, and initiation of payment requisition requests. The CHOP will be coordinated

through the H&CD Office's Housing Planner position. The H&CD Office Director and the City Attorney must approve all correspondence and purchase orders. The current H&CD Office Director has met with the Purchasing Director and City Treasurer to encourage open communication between the departments and the H&CD Office and to encourage these departments to question any area that is not explained properly. These procedures (one person no longer being solely responsible, approval by the City Attorney, H&CD Office Director and Mayor, and open communication between departments) create an internal checks and balances, which was not in existence with the prior administrator.

- All disbursements must be processed through procedures established by the City of Cheyenne. No checks will be made payable to a realtor. Counter checks are not created, unless written notice is provided to the H&CD Office by the City Attorney or Mayor.

4. *Deficient Identification of Assistance to be and/or Actually Provided:*

To eliminate this discrepancy, the City of Cheyenne's Housing and Community Development Office has implemented the adherence to Resolution 3182, utilizing an outside housing inspector, inspection of completed work, purchasing procedures are adhered to, Change Order requests are scrutinized, database indicating expended funds, file logs are utilized, and vendors are not reimbursed for materials purchased by program participants.

- City Council Resolution 3182, as adopted in October 1990, is adhered to. Homeowners must reside in the home for a minimum of six months, no dollars are expended without a Mayor's Authorization Letter, "remodeling and/or renovation" of residence is not conducted, and financial assistance may not exceed \$8,500 unless a "critical" situation is deemed by the Mayor and written approval by the Mayor is provided to the H&CD Office.

- The H&CD Office utilizes a private housing inspection company, CWN Inspections, LLC., to provide an initial home inspection that details deficiencies addressing safe, decent and sanitary conditions, and Cheyenne's "Minimum Housing Rehabilitation Standards." CWN is providing the H&CD Office with a detailed inspection report, which includes cost estimates for repairs, cost estimates on relocation if needed, and photos of the property.

- The City of Cheyenne Purchasing Procedures are followed for bid processing and contractor selection.

- A Mayor's Authorization Letter is signed, and a Mortgage is placed on the property prior to any work being conducted.

- The initial home inspection is adhered to, unless a Change Order is authorized. Work not listed on the initial inspection will not be conducted. The exception would be a Change Order, which will be scrutinized and must have a revised Mayor's Authorization Letter and Modification of Mortgage prior to work beginning.

- Repairs are inspected as work is completed, photos taken, inspections conducted, and approval sign off by the homeowner, prior to any payments being made to the contractor(s).
- No payments are made to program participants. Payments are made solely to selected contractor(s) for bid specifications and contractual agreements.
- All work conducted must receive a final inspection by CWN Inspections, LLC., and/or City Building inspectors, and a sign-off statement of satisfactory work by the homeowner, prior to payment to contractor(s).
- A database has been created indicating funds expended, applicant name, income, and property location. This will provide an accurate account of program funds at any given time. In addition, a log is placed in each file indicating contractor, work done, and dollars expended.
- All local vendors/suppliers (i.e. Sutherland, Mead Lumber, Capital Lumber and The Building Center) have been contacted and told that homeowners participating in the H&CD Office programs are not authorized to purchase materials for reimbursement. The forms used by the prior administration that allowed this process have been destroyed.
- H&CD Office staff is reviewing prior files on an individual bases and listing file discrepancies and developing a ledger on dollars expended. A database is created listing major discrepancies for staff to address.

4. *Unrecorded and uncollected program loans:*

To eliminate this discrepancy, the City of Cheyenne's Housing and Community Development Office is reviewing all prior files, mortgage and loan discrepancies are being addressed, negotiations with a local lender for loan servicing, authorization for loan modifications, and requests a listing of loans from the Office of Inspector General.

- The Housing and Community Development Office staff is reviewing prior files.
- Prior files with mortgage discrepancies to dollars expended are addressed. Initial appointments are scheduled with homeowners to review files and confirm that work was performed, and discuss the implementation of a Modified Mortgage to incorporate all funds expended on the property. A second appointment is scheduled to have homeowner(s) sign the Modified Mortgage.
- Promissory Notes that indicate that a loan was established, but not executed, are addressed. Homeowners are contacted via telephone and mail requesting payments be brought up to date. The file is placed on the H&CD Office Trakker system, which is a loan amortization software.

- Within the second quarter of 2001, the H&CD Office Director will negotiate with a local lender to provide loan servicing for all loans.
 - No loan modifications are conducted without prior discussion and approval by either the City Attorney or Mayor.
 - The Housing and Community Development Office requests a copy of the Office of Inspector General's loan listing to expedite the discovery of the 27 loans not identified by the H&CD Office.
4. *Conflict of interest violations:*

This area addresses four issues: Conflict of Interest, Adequate Oversight of the H&CD Office, All Main Functions and Controls with the Administrator, and Failure of Proper File Maintenance.

- The Housing and Community Development Office is adhering to conflict of interest as described in the "Citizens Participation Plan:" no employees, relatives or H&CD Office Advisory Council members are eligible for assistance unless a written waiver is provided by HUD. If HUD provides a waiver for assistance, the waiver stipulations will be stringently adhered to.

The City of Cheyenne submits its response to the HUD Monitoring Report dated May 1-5, 2000, as information demonstrating the City's in-depth research pertaining to the conflict of interest files mentioned.

"Frank Puente, consultant to the city through his role on the CDBG citizen's advisory committee, received HAND assistance."

The facts do not support this finding, because:

- *Mr. Puente had no involvement with the Advisory Committee until well after he applied for and received financial assistance.¹*

1. On July 30, 1996, Mr. Puente applied for HAND and HOME assistance.

¹At the time that the HUD audit was performed, Mr. Puente's file was not available for inspection by HUD personnel. On September 21, 2000, Mr. Puente met with representatives of the Housing office and he presented the official office file. He indicated that he had the file, because Ms. Mendez had given it to him. The Housing Office sent copies of the original file to HUD on October 19, 2000.

2. *On November 11, 1997, the Mayor signed authorization for CDBG loan for \$38,593.25 and a rehabilitation deferred Grant for \$14,500.*
3. *June 23, 1997, Mr. Puente signed executed “Certificate of Allocation of Hand or Home Grant loan - memorandum of understanding”; Mortgage and Promissory Note.*
4. *April 14, 1998, Mr. Puente was appointed to the Housing and Community Development Advisory Council.*
5. *May 21, 1998, Mr. Puente’s case file was formally closed by the Housing office.*
6. *Mr. Puente did not attend any advisory committee meetings until several weeks after his case file was closed.*
7. *Given these facts, it is clear that Mr. Puente did not sit in any decision making capacity, nor in any other manner exercise any influence over the decision to grant him CDBG assistance.*

- *Mr. Puente was not a “consultant” to the Housing office.*

The term “Consultant” does not appear to be defined in CDBG regulations. However, when a word is not defined, its generally accepted definitions are applicable. As defined by The American Heritage Dictionary, Second College Edition “Consultant” means, “a person who gives expert or professional advice.” The Report does not mention any expertise possessed by Mr. Puente which would qualify him as a consultant. Thus, it is difficult to understand how a lay person, who had received CDBG financial assistance, could be accurately characterized as some one who renders expert or professional advice.

*“**Joe Pando**, brother to the mayor, received HAND assistance.”*

It is necessary to clarify some of the details relating to Joe Pando’s loan:

Mr. Joe Pando has been visually impaired since 1984. He and his wife live on a fixed income, from disability payments, social security and her income. He and Mayor Leo Pando are siblings.

Some of the improvements to their home, including a lawn sprinkler system, were made “because of both clients disabilities (one is legally blind and the other has artificial knee caps), upon the advice of Will Sanchez, former director of the Housing and Community Development Office, who was also visually impaired.

Prior to asking for approval of assistance to Joe and Pauline Pando, Will Sanchez, who was employed at the Housing and Community Development Office for over 25 years, contacted Ed Antencio, who was the City's HUD representative, to inquire whether there would be any problem in assisting Joe Pando, because of his relationship to the Mayor. Mr. Antencio informed Sanchez that there would be no conflict of interest situation if the Mayor was in no manner involved with the Pando loan.

The Mayor was never informed that Joe Pando's application was approved. The authorization for HOME assistance was executed on June 12, 1996, by Mark Rinne, DDS, president of the Cheyenne City Council.

Also, this situation does not involve a conflict of interest under Wyoming Law. Wyo. Stat. §16-6-118 provides that it is improper for a public officer to vote on a matter in which he is personally interested. Clearly, the Mayor did not even know about the loan, let alone vote on it.

The City of Cheyenne requested that HUD reconsider Frank Puente, and Joe Pando conflict of interest issues, which total \$32,912.72. However, the City does acknowledge the conflict of interest with Dawn Mendez's files and feels obligated to reimburse the CDBG line of credit for \$9,394.79 spent on her residence at 1508 Sundance Lane from general revenues.

The Housing and Community Development Office no longer operates in a vacuum, thus eliminating inadequate oversight of the H&CD Office.

- ✓ The Housing and Community Development Office Director participates in the weekly Mayor Staff Meeting, which is held Thursday mornings, and brief, detailed reports pertaining to weekly activities are presented.
- ✓ Monthly activity reports are being implemented and will be submitted to the City Attorney the first of each month, beginning February 2001.
- ✓ The Housing and Community Development Office Director is utilizing HUD's IDIS system to report program activities in greater detail.
- ✓ Expenditure logs are placed in each file.
- ✓ A database now exists that indicates overall program funds and expenditures per activity.
- ✓ Federal Cash Transactions Report was submitted to HUD in a timely fashion for October 1, 2000, through December 31, 2000.

- ✓ One person is no longer solely responsible for requisitions, purchase orders and approval. Separation of programs is designated per staff program responsibility, with approval by the City Attorney and the H&CD Office Director.
- ✓ The newly elected Mayor has indicated “spot,” periodic reviews of all City departments will be implemented, which includes the Housing and Community Development Office, by an independent auditor.

The Housing and Community Development Office Director has distributed programs, workloads, responsibilities and accountability; therefore, eliminating all main functions and controls with the Director.

- ✓ Staff assigned to a program receives, reviews and processes applications. The H&CD Office Director serves as a consultant for the staff member.
- ✓ Staff assigned to a program prepares the Mayor’s Authorization Letter for applicant funding. The letter is reviewed by the H&CD Office Director and City Attorney, prior to submission to the Mayor.
- ✓ Authorization of amount and type of assistance is ultimately the Mayor’s decision. Staff assigned to a program prepares documentation (i.e. applicant status, scope of work, inspection report, bids, etc.) that provides the Mayor with data for an informed decision.
- ✓ Staff assigned to a program maintain all program and administrative files for individual applicants. A master program file (i.e. HAND Program) that indicates IDIS draw downs is maintain by the H&CD Office Director.
- ✓ The Cheyenne City Council, through the adoption of the CHOP, has established a H&CD Office Loan Committee that will review all potential loan requests. The H&CD Office has established an operating policy that applicants with incomes below the 50% median income established by HUD Section 8 will be provided deferred loans that depreciate \$1,000 annually. Applicants with incomes between the 50% and 80% income, as established by HUD, will receive a 5% loan. The H&CD Office Director will be establishing a relationship with a local lender to service all loans.
- ✓ One person is no longer responsible for requisitions, purchase orders, approvals, and record keeping for programs administered by the Housing and Community Development Office. The program designates who assists the customer (homeowner), file documentation, implementation of the program, and initiation of payment requisition requests. The HAND Program is coordinated through the H&CD Office’s Office Manager position. The CHOP is coordinated through the H&CD Office’s Housing Planner position. The H&CD Office Director and the City Attorney must approve all

correspondence and purchase orders. The current H&CD Office Director has met with the Purchasing Director and City Treasurer to encourage open communication between the departments and the H&CD Office and to encourage these departments to question any area that is not explained properly. These procedures (one person no longer being solely responsible, approval by the City Attorney, H&CD Office Director and Mayor, and open communication between departments) create an internal checks and balances, which was not in existence with the prior administrator.

- ✓ The H&CD Office Director serves as a consultant to staff assigned to a program; therefore, the Director no longer controls or maintains records, or has a direct, day-by-day participation with the two programs.
- ✓ The H&CD Office no longer exceeds funds authorized by the Mayor's Authorization Letter, unless a Change Order is implemented. A Change Order is scrutinized for justification. Documentation is placed in the file, a Modified Mayor's Authorization Letter describing the Change Order request is signed, and a Modified Mortgage is executed prior to the Change Order work being done.
- ✓ The HAND Program is utilized for emergency housing rehabilitation, with a turn-around time of two weeks. Because of the existing HOME Program housing rehabilitation waiting list and the believe that these households may be serviced under the authorized funding amount (\$8,500), the H&CD Office Director is considering evaluating these files for HAND assistance. Files transferred to the HAND Program will adhere to standards, policies and procedures of the program.

The Housing and Community Development Office has evaluated and refined proper file maintenance to reflect file accuracy and expenditure accountability.

- ✓ Through the "First-Time Homebuyer" task force revision of the CHOP and staff's initial revision of the HAND Program, a comprehensive file checklist has been developed and implemented.
- ✓ H&CD Office staff is reviewing prior files on an individual bases and listing file discrepancies and developing a ledger on dollars expended. A database is created listing major discrepancies for staff to address.
- ✓ A database has been created indicating funds expended, applicant name, income, and property location. This will provide an accurate account of program funds at any given time. In addition, a log is placed in each file indicating contractor, work done, and dollars expended.
- ✓ The newly elected Mayor has indicated "spot," periodic reviews of all City departments will be implemented, which includes the Housing and Community Development Office, by an independent auditor.

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Appendix B

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