
AUDIT REPORT



CITY OF WORCESTER
WORCESTER, MASSACHUSETTS

COMMUNITY DEVELOPMENT
BLOCK GRANT PROGRAM

2002-BO-1001

MARCH 27, 2002

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date	March 27, 2002
Audit Case Number	2002-BO-1001

TO: James Barnes, Director, Office of Community Planning and Development, 1AD

FROM: Barry L. Savill, District Inspector General, Office of Audit, 1AGA

SUBJECT: City of Worcester
Community Development Block Grant Program
Worcester, Massachusetts

We performed an audit of the City of Worcester, Massachusetts (Grantee) Community Development Block Grant (CDBG) Program. Our objective was to determine whether the Grantee's reorganization of the former Office of Planning and Community Development was effective and allowed the Grantee to fulfill its CDBG Program responsibilities. Specific audit objectives included determining whether the Grantee: (1) carried out its CDBG activities in an economical, efficient, and effective manner; (2) complied with the CDBG Program requirements, laws and regulations; and (3) maintained adequate controls to ensure compliance with HUD regulations.

Although the Grantee generally utilized its CDBG funds in an efficient and effective manner, we identified problems with the administration of the Program. The report's finding indicates that the Grantee improperly allocated salaries and related expenses as direct costs to the CDBG Program resulting in significant unsupported and ineligible costs.

Within 60 days, please provide us 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 with copies of any correspondence or directives issued as a result of this audit.

If you have any questions, please contact our office at (617) 994-8380.



Executive Summary

We conducted an audit of the Community Development Block Grant (CDBG) Program awarded to the City of Worcester, Massachusetts (Grantee). This audit was requested by the HUD Massachusetts State Office, Office of Community Planning and Development (CPD). CPD officials expressed concern with the Grantee's reorganization of its former Office of Planning and Community Development (OPCD), and OPCD's responsibility for the administration of the CDBG Program.

The primary objective of our audit was to determine whether the reorganization of OPCD was effective, and allowed the Grantee to maintain its ability to follow HUD CDBG requirements. Specifically, our audit determined whether the Grantee:

- Carried out its CDBG activities in an economical, efficient, and effective manner;
- Complied with the CDBG Program requirements, laws and regulations; and
- Maintained adequate controls to ensure compliance with HUD regulations.

Audit Results

Through our observation and the interviews conducted during our review, we determined that, in general, the reorganization has not negatively affected the Grantee's ability to efficiently and effectively implement its CDBG Program. At the present time, however, the reorganization is still underway, and a final determination as to any long-term effect on the Grantee's ability to administer its CDBG Program cannot be made until this process is complete.

The reorganization of OPCD was initiated in February 2001. OPCD, which had administered the Grantee's CDBG Program, was eliminated as a Grantee department. In its place, two new offices were established: the Executive Office of Neighborhood Services (EONS) and the Executive Office of Economic Development (EOED). EONS is currently responsible for administering the Grantee's CDBG Program. EOED addresses economic development and planning. Grantee personnel in both EONS and EOED indicated that they generally expect the reorganization to enhance the Grantee's ability to effectively and efficiently implement its CDBG Program through increased accountability and monitoring. Through EONS and EOED, the Grantee provides CDBG funds to various City Departments and approximately 40 subrecipients. One of the programs managed by EONS is the Worcester Housing Improvement Program (WHIP).

EOED manages several programs including the Economic Development (ED) Program.

The Grantee does not have a proper allocation plan for staff salaries. The Grantee operates with a Program Year of July 1 to June 30. During its Program Years 25 and 26, (July 1, 1999 to June 30, 2001), the Grantee charged \$710,031 in salaries, \$113,570 in fringe benefits and \$77,746 in operating overhead to its WHIP and ED Program. The WHIP and the ED Program are managed by EOED and EONS. The charges for fringe benefits and operating overhead were based on staff salaries.

Because the Grantee does not have a basis for its allocation plan, the entire amount of \$901,347 is questionable. Interviews with the WHIP and the ED Program staff and analysis of their job duties showed that some of their duties were administrative in nature. These salaries should have been identified as administrative costs or costs of other programs instead of direct costs to the WHIP and the ED Program. However, there are consequences for charging administrative costs to the program. Salaries and related costs for Planning and Administrative Costs are limited to 20 percent of the CDBG grant awarded plus Program Income, by statute (24 CFR 570.200(g)).

Separate from the administrative charges to the WHIP and the ED Program, the Grantee charged other costs of \$2,180,161 to CDBG Planning and Administrative Costs. The \$2,180,161 represents 18.7 percent of the \$11,654,834 CDBG grant awards, plus Program Income for Program Years 25 and 26. Planning and Administrative Costs are limited to 20 percent of the subtotal of the CDBG Grant and Program Income.

Proper allocation of the administrative type salaries charged to the WHIP and the ED Program could cause the Grantee to exceed its 20 percent statutory limitation for Planning and Administrative Costs. Salaries in excess of the 20 percent administrative cap would be ineligible.

Using criteria defined under:

- 1) OMB Circular A-87, Attachment B, Section (11)(h)(4) and (h)(5) which requires the distribution of salaries for

employees working on multiple activities or cost objectives to be supported by personnel activity reports or equivalent documentation,

- 2) OMB Circular A-87, Attachment A, Section (c)(1) which states costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards, and adequately documented, and
- 3) 24 CFR 570.206(a)(1) which defines administrative costs;

we believe \$331,386 in costs to be ineligible as direct costs to the CDBG Program. The remaining \$569,961 (\$901,347- \$331,386) we believe to be unsupported.

Description	Unsupported	Ineligible	Total
Salaries	\$424,073	\$285,958	\$710,031
Fringe Benefits	68,142	45,428	113,570
Ordinary Maintenance	77,746	0	77,746
Total	\$569,961	\$331,386	\$901,347

The Grantee believes it will be able to support the majority of the questioned costs. The Grantee disagrees with our interpretation of what constitutes an administrative function and what constitutes a direct cost. Nonetheless, the Grantee acknowledged the need to update its current allocation, but is awaiting the final determination from CPD identifying what constitutes Planning and Administrative Costs. Once resolved, the Grantee intends to perform an analysis of their operations and revise their allocation.

Recommendations

We are recommending that the Grantee establish and submit for HUD approval an appropriate method for allocating direct and indirect costs in accordance with Federal Cost Principles for implementation retroactive to July 1, 2001. In addition, we recommend that the Grantee provide sufficient documentation to support the eligibility and amount of its costs, or reimburse the CDBG Program with non-Federal funds. We recommend that the Grantee reimburse the CDBG Program from non-Federal funds for any amounts in excess of the 20 percent statutory limitation imposed on CDBG Planning and Administrative Costs.

CPD should continue to monitor the Grantee through its regularly scheduled monitoring reviews, as the Grantee progresses with the implementation and adjustment of its reorganization.

Findings and
Recommendations
Discussed

We discussed the finding with the Grantee during the course of the audit. An exit conference was held at the Grantee on January 11, 2002. On February 15, 2002, we provided the Grantee a copy of the draft audit report. The Grantee provided comments on March 8, 2002 and generally disagreed with the contents of the report. Due to its voluminous content, the Grantee's entire response was forwarded to CPD under a separate letter. We included pertinent comments of the Grantee's response in the Finding section of this report and Appendix C.

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Abbreviations

CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
CPD	Community Planning and Development
ED	Economic Development
EOED	Executive Office of Economic Development
EONS	Executive Office of Neighborhood Services
Grantee	City of Worcester, Massachusetts
HUD	U. S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPCD	Office of Planning and Community Development
WHIP	Worcester Housing Improvement Program

Introduction

The Community Development Block Grant (CDBG) Program was established by Title I of the Housing and Community Development Act of 1974 to assist entitlement grantees in the development of viable urban communities. Grantees use CDBG funds to develop decent housing, suitable living environment, and economic opportunity principally for low- and moderate-income individuals. HUD provides grants to states and local governments as determined by a statutory formula.

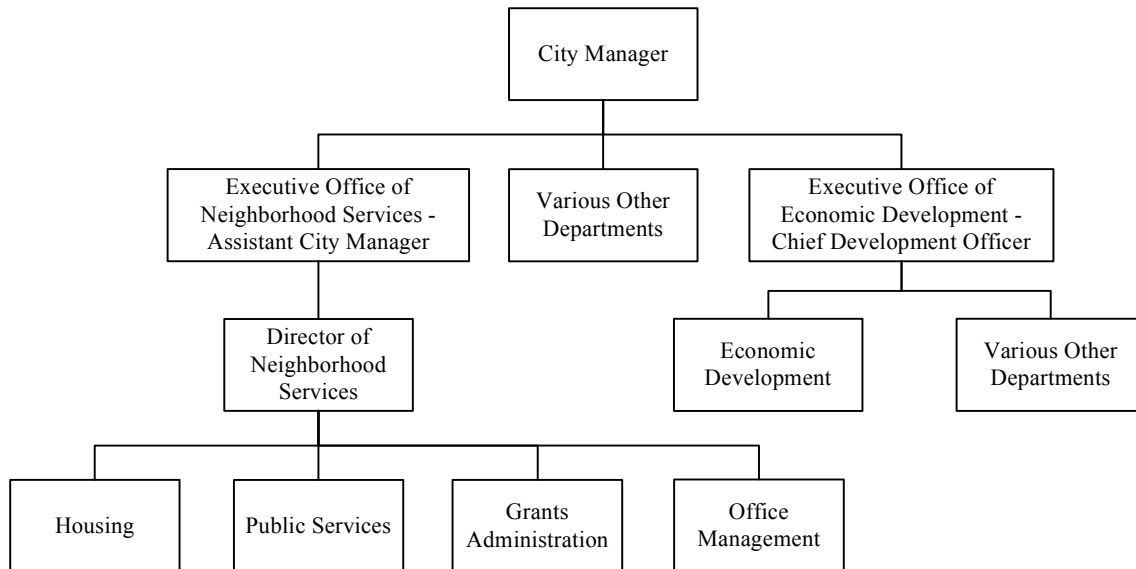
HUD regulations require that CDBG funds be used for eligible activities with the goal of accomplishing at least one of the following national objectives of the Program:

- (1) to benefit low- and moderate-income individuals;
- (2) to aid in the prevention or elimination of slums and blight; or
- (3) to meet other community development needs having particular urgency.

The City of Worcester, Massachusetts (Grantee) is an entitlement recipient of the CDBG Program and operates under a City Manager form of government. The current City Manager, Thomas Hoover, is the official responsible for the Grantee's CDBG Program. Until February 2001, the Grantee's former Office of Planning and Community Development (OPCD) administered the CDBG Program. As of February 2001, the Worcester City Council adopted a comprehensive reorganization plan involving the various city agencies responsible for economic development and neighborhood services. The plan identified that its primary purpose was to focus the Grantee's existing resources to achieve a higher level of performance in the areas of economic development, neighborhood services and geographic information systems.

This plan divided the duties and responsibilities of the OPCD among three city agencies: (1) a new office entitled the Executive Office of Economic Development (EOED); (2) a new office entitled the Executive Office of Neighborhood Services (EONS); and (3) the Information Services Department. The EOED is a combination of the economic development and planning sections of the former OPCD and the Development Office from the City Manager's Office. The EONS consists of the Public Services, Housing, Grants and Office Management sections of OPCD. The Geographic Information System, previously handled by OPCD, became the responsibility of the Information Services Department hereby enabling all City Departments and the public to gain on-line access to public geographic data. The EONS is currently responsible for administering the CDBG Program and is headed by the Assistant City Manager, Paul LaCava.

The chart below depicts the current organizational set-up of the Grantee:



For a detailed delineation of the EONS and EOED staff, see Appendix B.

The Grantee provided CDBG funds to various City departments and to approximately 40 subrecipients to carryout eligible CDBG activities and provide services to the community. HUD awards CDBG funds each Program Year. A Program Year is defined as a twelve-month period beginning on the first calendar day of a month established by the jurisdiction. During Program Years 25 and 26, the Grantee was awarded the following CDBG funds:

Grant Program	Program Year	Program Fiscal Year	Grant Award
B-99-MC-25-0026	25	07/01/99-06/30/00	\$5,754,000
B-00-MC-25-0026	26	07/01/00-06/30/01	\$5,737,000

In addition to the grants awarded, the CDBG Program can generate Program Income. Because grantees do not have to expend the funds in a single year, CDBG grant awards may be carried forward from one year to the next. The Grantee expended a total of \$6,117,701 during Program Year 25 and \$6,307,300 during Program Year 26, as of June 30, 2001. The use of all CDBG grant funds is approved by the Grantee’s City Council. The following table displays the types of activities funded through the CDBG Program and the amount expended during Program Years 25 and 26:

Program	Funds Expended	
	Program Year 25	Program Year 26
Public/Human Services	\$763,583	\$835,746
Affordable Housing	\$2,036,831	\$1,845,304
Economic Development	\$495,559	\$540,473
Parks	\$ 699,271	\$552,911
Neighborhood Revitalization Fund	\$665,898	\$710,592
Webster Square Fire Station	\$142,502	\$434,221
Demolition	\$22,869	\$142,350
Urban Renewal/Worcester Redevelopment Authority	\$197,931	\$28,712
Public Facilities	\$0	\$75,000
South Worcester Industrial Park	\$0	\$44,337
Northern Gateway	\$0	\$10,750
Planning and Administrative Costs	\$1,093,257	\$1,086,904
Total	\$6,117,701	\$6,307,300

Audit Objectives

The overall objective of our audit was to determine whether the reorganization was effective and allowed the Grantee to fulfill its CDBG Program responsibilities. Specific audit objectives included determining that the Grantee:

- Carried out its CDBG activities in an economical, efficient and effective manner;
- Complied with the CDBG Program requirements, laws and regulations; and
- Maintained adequate controls to ensure compliance with HUD regulations.

Audit Scope and Methodology

The audit was conducted between March 2001 and September 2001, and covered the period July 1, 1999 through June 30, 2001. The audit period was extended, where necessary, to meet our audit objectives.

To accomplish the audit objectives, we performed the following:

- Reviewed Federal requirements, including Code of Federal Regulations, OMB Circulars, and HUD Handbooks.
- Reviewed files maintained by the HUD Massachusetts State Office, Office of Community Planning and

Development (CPD) relating to the Grantee's CDBG Program.

- Reviewed Audited Financial Statements of the Grantee, both the City's general purpose statements and those required by OMB Circular A-133, for the periods ended June 30, 1999 and June 30, 2000.
- Reviewed the Grantee's system of internal controls by completing an internal control questionnaire, observation, and testing of transactions.
- Reviewed the Grantee's former and present organization and administrative structure to determine the extent of any change in the total number of job positions applicable to the CDBG Program, and to assess the effect of these changes on the Grantee's ability to carry out its CDBG Programs.
- Interviewed Grantee employees in key management and staff positions within the EONS, the EOED, and the Finance (Budget) Office to ensure that the reorganization of the Grantee's OPCD was effective and allowed the Grantee to fulfill its CDBG Program responsibilities.
- Identified the Programs being administered by the Grantee with CDBG funds during Program Years 25 and 26, and selected three Programs for limited review to ensure compliance with HUD regulations: 1) Public/Human Services, 2) Affordable Housing and 3) Economic Development. Our selection was based on the total dollars per Program and we selected three of the largest Programs.
- From the three Programs selected, we examined the three highest funded CDBG related activities within each Program, and performed a limited review to determine if those activities were in compliance with HUD regulations and whether those activities met at least one of the three CDBG national objectives. The activities reviewed were:

Program	Affordable Housing	Public/Human Services	Economic Development
Activities Reviewed	<ol style="list-style-type: none"> 1. Worcester Housing Improvement Program 2. Lead Paint Program 3. Code Enforcement Program 	<ol style="list-style-type: none"> 1. Friendly House 2. South Worcester Neighborhood Center 3. Henry Lee Willis Community Center 	<ol style="list-style-type: none"> 1. Black Fighting Back with Intellect 2. Centro Las Americas 3. Economic Development Program

- Determined whether Grantee procedures are in place to adequately monitor subrecipient activities.
- Determined whether the Grantee exceeded the 20 percent limitation on CDBG Planning and Administrative Costs during Program Years 24, 25 and 26.
- Interviewed Grantee management and staff to determine the basis for the support and related costs allocated directly to the CDBG Program through the Worcester Housing Improvement Program (WHIP) and the Economic Development (ED) Program.
- Reviewed the Grantee's weekly summary time reports for the period July 24, 1999 to June 30, 2001, and Expenditure Transaction Reports for Program Years 25 and 26 to determine whether salary and related costs allocated directly to the CDBG Program through the WHIP and the ED Program were supported and eligible.
- Interviewed the Grantee's staff and the staff from CPD, as necessary.

Costs Improperly Allocated to the Community Development Block Grant Program

The City of Worcester (Grantee) allocated salaries, (\$710,031) related fringe benefits (\$113,570) and ordinary maintenance (\$77,746) for a total of \$901,347 as direct costs to the Community Development Block Grant (CDBG) Program when the costs were either unsupported or ineligible. The Grantee used an unsupported allocation method that, according to key personnel, was based on the available funding resources rather than the actual time spent on each Program contrary to Federal regulations. As a result, there has been a reduction of funds for eligible CDBG activities including benefits to low- and moderate-income individuals.

Costs Must be Necessary,
Reasonable and
Adequately Documented

Title 24, Code of Federal Regulations (CFR), Section 570.200(a)(5) prescribes that costs incurred, whether charged on a direct or an indirect basis, must be in conformance with OMB Circular A-87. OMB Circular A-87, Attachment A, Section (C)(1) stipulates that eligible costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards, and eligible costs must be adequately documented.

OMB Circular A-87, Attachment B, Sections (11)(h)(4) and (11)(h)(5) stipulate that:

... where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or their equivalent must: (1) reflect an after-the-fact distribution of the actual activity for each employee and (2) be prepared at least monthly and signed by each employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as adequate supporting documentation.

Finding 1

Total Unsupported and Ineligible Costs

The Grantee expended \$901,347 in unsupported and ineligible costs from two of its CDBG-funded Programs (Worcester Housing Improvement Program (WHIP) and Economic Development (ED) Program) for Program Years 25 and 26, as follows:

Description	Unsupported	Ineligible	Total
Salaries	\$424,073	\$285,958	\$710,031
Fringe Benefits	68,142	45,428	113,570
Ordinary Maintenance	77,746	0	77,746
Total	\$569,961	\$331,386	\$901,347

Allocation Not Properly Supported

The Grantee does not require personnel who work on multiple activities to prepare activity reports that reflect actual work performed and does not maintain the necessary documentation to support the cost of salaries, related fringe benefits and ordinary maintenance allocated directly to the CDBG Program. The Assistant City Manager stated that the Grantee did not have a formal payroll allocation, but instead required personnel to submit weekly time sheets reflecting the actual time worked on each Program.

Interviews with Grantee personnel contradicted the Assistant City Manager. According to Grantee personnel, the Finance Department requested the staff to track their time for a short period of time. They advised that the Finance Department then generated an allocation for each staff member identifying the number of hours to charge each week per Program. Grantee personnel advised that this allocation was not reflective of their actual time and they were unsure how the Finance Department determined the allocation. The Director of the Executive Office of Neighborhood Services (EONS), which administers the Grantee's CDBG Program, also confirmed that a formal payroll allocation existed. He advised that the former Financial Management Coordinator developed the allocation, but he was unsure of the basis for the allocation.

The former Financial Management Coordinator advised that personnel costs were allocated based on the available revenue sources. He advised that he knew which Program or Programs each staff person worked on, and he allocated their costs accordingly. For instance, if a staff member worked 100 percent of the time on a specific Program, the related costs would be allocated 100 percent to that particular Program. He further stated that the indirect costs

used the same allocation formula. He provided no explanation on how he knew which staff were working 100 percent of their time on a specific Program or any portion therein. He acknowledged that no documentation was available to support the allocation because it was based on the revenue available. Our review of the weekly summary payroll sheets from July 24, 1999 through June 30, 2001 revealed little change to the Grantee’s overall payroll allocation since August 1999.

\$424,073 in Unsupported Salaries

Using the Grantee’s weekly summary payroll sheets, we determined that the Grantee charged \$424,073 in unsupported salaries to the WHIP and the ED Program. The Grantee could not correlate the hours charged to the WHIP and the ED Program to the output produced by their personnel. Although we believe that some of these hours may legitimately be direct costs, the Grantee did not provide a basis to adequately support its allocation. The Grantee charged the following salaries:

Total Salaries			
	Program Year 25	Program Year 26	Total
Housing Department	\$176,075	\$109,138	\$285,213
Economic Development Department	\$62,950	\$75,910	\$138,860
Total Unsupported Salaries	\$239,025	\$185,048	\$424,073

The Housing Department administers the WHIP and the Economic Development Department administers the ED Program.

Allocation not Reflective of Actual Costs

Grantee personnel stated that they worked fewer hours on the WHIP than were actually allocated to the Program. We interviewed the four current employees allocated to the WHIP. The first individual stated that he spent minimal time working on the Program. The second stated that approximately five percent of his time was related to the WHIP, and the third stated that she basically provides technical assistance on the WHIP such as fielding phone calls from local residents regarding housing issues. The fourth, the current Housing Coordinator, stated that he works one hour per week on the WHIP. Our review of the Housing Department time sheets disclosed that, during

Program Years 25 and 26, all four of these personnel are allocated to the WHIP for 70 to 75 percent of their time. The former Director of the Housing Department also allocated 70 to 75 percent of his time to the WHIP during Program Year 25. The current Housing Coordinator is unsure why his personnel are allocated mostly to the WHIP. He speculated that, if the Housing Department's salaries were allocated to CDBG Planning and Administrative Costs instead of the WHIP, the Grantee may exceed the 20 percent cap imposed on Planning and Administrative Costs.

ED personnel believe that their salary allocation is accurate; however, our analysis shows that: (1) the Grantee is allocating salaries to a Program where it is not expending appropriated funds and (2) the allocation changed for certain personnel. As of June 30, 2001, the Grantee appropriated \$157,700 and \$198,619 to its ED Environmental Remediation funds and ED Loan Pool, respectively for Program Years 24, 25, and 26. As of June 30, 2001, the Grantee had expended \$2,200 from the ED Environmental Remediation fund and no funds from the ED Loan Pool. As a result, we believe the salaries allocated directly to the ED Program are excessive. Additionally our review of the ED time sheets showed that personnel used two different percentages to allocate their time during Program Year 25. For the first nine months of Program Year 25, three personnel allocated 20 to 45 percent of their time directly to the ED Program. For the last three months, these three personnel allocated 80 to 90 percent of their time directly to the ED Program each week. During Program Year 26, the four personnel who allocated time to the ED Program allocated 60 to 90 percent of their time directly to the ED Program each week.

Responsibilities are not Programmatic

In addition to the Grantee's unsupported allocation, our review of the tasks performed by the Housing and ED Department personnel disclosed that their duties were generally administrative in nature. Duties included:

- Providing information to citizens;
- Developing interagency agreements and agreements with subrecipients and contractors to carry out Program activities;
- Monitoring Program activities for progress and compliance with Program requirements; and
- Preparing reports and other documents related to the Program for submission to HUD.

While some of the tasks performed by the Housing and ED personnel may be eligible, we cannot determine what percentage of their time is administrative and what percentage is direct. Therefore, we consider the \$424,073 for salaries to be unsupported. The Director of the EONS agreed that it appeared too many hours were being allocated to the WHIP and welcomed our assessment so that corrections could be made.

Regulations Define Allowable Direct and Administrative Costs

OMB Circular A-87, Attachment A, Section (C)(1) stipulates, that to be eligible under Federal awards, costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards and costs must also be adequately documented. Attachment A, Section (E) of the circular defines direct costs as those that can be identified specifically with a particular final cost objective. Employee compensation is chargeable to Federal awards as a direct cost only to the extent of the time devoted and identified specifically to the performance of those awards.

Title 24 CFR Section 570.206(a)(1) states that salaries, wages and related costs of the CDBG recipients' staff, the staff of local public agencies, or other staff engaged in program administration may be charged as Planning and Administrative Costs to the CDBG Program. This includes reasonable costs of overall program management, oversight, coordination, monitoring and evaluation of the

CDBG Program. Program administration includes the following types of assignments:

- (i) Providing local officials and citizens with information about the CDBG Program;
- (ii) Preparing program budgets and schedules, and amendments thereto;
- (iii) Developing systems for assuring compliance with program requirements;
- (iv) Developing interagency assignments and agreements with subrecipients and contractors to carry out program activities;
- (v) Monitoring program activities for progress and compliance with program requirements;
- (vi) Preparing reports and other documents related to the program for submission to HUD;
- (vii) Coordinating the resolution of audit and monitoring findings;
- (viii) Evaluating program results against stated objectives; and
- (ix) Managing or supervising persons whose primary responsibilities with regard to the program include such assignments as those described in (i) to (viii) above.

Several Grantee Departments Allocate Costs Directly to the WHIP and the ED Program

Although the Housing and ED Departments are responsible for administering the Grantee's WHIP and ED Program, our review disclosed that several other Grantee Departments were charging a portion of their salaries as direct costs to the WHIP and the ED Program as well. These Departments included City Management, Finance (Budget) Office, Office Management and Public Service Department. The duties performed by these other Grantee Departments did not provide a direct benefit to the WHIP and the ED Program. Therefore, the costs should have been allocated to the Grantee's CDBG Planning and Administrative Costs or another City, State or Federal

Program, as applicable. The Grantee has job descriptions to differentiate pay grades, but these did not identify specific duties and responsibilities.

\$285,958 in Ineligible Salaries

Based on the Grantee’s weekly summary payroll sheets from July 24, 1999 to June 30, 2001, we determined that these other Departments charged \$285,958 in ineligible salaries to the WHIP and the ED Program, as follows:

	Program Year 25	Program Year 26	Total
WHIP	\$108,775	\$105,091	\$213,866
ED	\$46,943	\$25,149	\$72,092
Total Ineligible Salaries	\$155,718	\$130,240	\$285,958

The questioned costs are in either managerial or administrative support positions that, by their very nature, do not ordinarily provide direct services to any one particular program, but instead to a number of programs and initiatives.

Questionable Fringe Benefit Costs of \$113,570

In addition to the regular salaries allocated directly to the Grantee’s WHIP and ED Program, the fringe benefits directly related to those salaries were also allocated. According to the Grantee’s Expenditure Transaction Analysis Reports provided for the WHIP and the ED Program, fringe benefits including health insurance and retirement funds were allocated to the WHIP and the ED Program during Program Years 25 and 26. As the fringe benefits charged to the WHIP and the ED Program were in direct relation to the Grantee’s salaries, which we determined to be unsupported or ineligible, the associated fringe benefits are also considered unsupported or ineligible. We determined that 60 percent of the total allocated salaries were unsupported and the remaining 40 percent were ineligible. Therefore, we consider 60 percent of the fringe benefits to be unsupported and the remaining 40 percent to be ineligible.

Finding 1

The table displays the total fringe benefits allocated to the WHIP and the ED Program during Program Years 25 and 26, and the amounts considered unsupported and ineligible:

Program	Total Charged	Unsupported (60%)	Ineligible (40%)
WHIP	\$ 80,458	\$48,275	\$32,183
ED	33,112	19,867	13,245
Total	\$113,570	\$68,142	\$45,428

Ordinary Maintenance Costs of \$77,746 Questionable

The Grantee also allocated ordinary maintenance costs to the WHIP during Program Years 25 and 26 without adequate support for its allocation. No ordinary maintenance costs were allocated to the ED Program during this timeframe. The ordinary maintenance costs consisted of leases, equipment rentals, postage, and telephone charges. According to the former Financial Management Coordinator, the amount charged was based on the staff allocated to the WHIP. Since the Grantee could not adequately support the allocation of its staff to the WHIP, we also consider the allocation of ordinary maintenance to be unsupported. The Housing Department, which administers the WHIP, occupied one floor of one of the Grantee’s buildings; however, the Grantee expended \$35,200 to cover lease payments for four floors of this building for a four-month period during Program Year 25 and another four-month period during Program Year 26. Grantee staff from other Departments occupied the other three floors. The total ordinary maintenance expended from the WHIP during Program Years 25 and 26 is:

Program	Program Year 25	Program Year 26	Total Unsupported Costs
WHIP	\$39,363	\$38,383	\$77,746

Administrative Costs Limited to 20% of Grant

Title 24 CFR Section 570.200(g) states that Planning and Administrative Costs cannot exceed 20 percent of the sum of the CDBG entitlement grant awarded for that Program Year plus Program Income received by the recipient and its subrecipients during that Program Year. Proper allocation of costs currently charged to the WHIP or the ED Program for Program Years 25 and 26 could result in the Grantee exceeding the statutory 20 percent limitation. During Program Year 25, the Grantee spent 18.7 percent for CDBG Planning and Administrative Costs. During Program Year

26, the Grantee also spent 18.7 percent for CDBG Planning and Administrative Costs prior to any adjustment.

Category	Program Year 25	Program Year 26	Totals
CDBG Grant	\$5,754,000	\$5,737,000	\$11,491,000
Program Income Generated	\$103,467	\$60,367	\$163,834
Subtotal	\$5,857,467	\$5,797,367	\$11,654,834
20 percent of the Subtotal	\$1,171,493	\$1,159,473	\$2,330,967
Planning and Administrative Costs	\$1,093,257	\$1,086,904	\$2,180,161
Planning & Admin. Costs as a percentage of the subtotal	18.7%	18.7%	18.7%

The Grantee will be required to use non-Federal funds to reimburse the CDBG Program for any amount exceeding the 20 percent cap.

Grantee Willing to Update Allocation

As of the beginning of Program Year 27 (July 1, 2001), the Grantee implemented a new administrative allocation that reduces the costs allocated to the WHIP and the ED Program. The allocation has since been updated—further reducing the costs allocated to the WHIP and the ED Program. The newest allocation has been sent to the Grantee’s City Manager for his review and approval. Although the proposed allocation submitted to the City Manager attempts to correct the situation, the Grantee still does not have a valid basis for its allocation. The allocation implemented is still based on the Grantee’s available budget rather than the actual work performed by the Grantee’s employees as required by OMB Circular A-87, Attachment B, Section (11)(h)(4) and (11)(h)(5). As a result, the Grantee may still be improperly allocating its salaries and related expenses.

The Grantee’s Assistant City Manager agreed that the old allocation to the WHIP and the ED Program required correction. He also stated that the Grantee would like to discuss a work plan with HUD Massachusetts State Office, Office of Community Planning and Development (CPD) to correct the issue within an agreed upon timeframe. The Director of EONS also expressed the desire to take our recommendations and revise the current allocation. The Grantee disagrees with our monetary analysis and is awaiting a decision from CPD. Once that determination is made, the Grantee intends to prepare a more thorough analysis and update their allocation accordingly.

Auditee Comments

The Grantee disagreed that costs were improperly allocated to its CDBG Program. The Grantee contends that we did not consider the full scope of the Programs that the Grantee conducted using CDBG funds. The Grantee believes its activities and outcomes during this time period demonstrated that it upheld the letter and intent of the national objectives of the CDBG Program.

The Grantee used the Annual Assessment Reports prepared by CPD as a source of guidance and management direction in the administration of the Grantee's CDBG Program. These reports cited the Grantee for administrative excellence and outstanding leveraging of other resources.

In support of these contentions, the Grantee provided performance based activity reports for the period July 1999 to June 2000. The Grantee advised that the City Manager initiated a Performance Based Management System whereby each Department developed written projected performance goals and objectives for the twelve-month fiscal year. The Grantee provided numerous spreadsheets detailing performance based budgets and housing performance goals.

The Grantee did not implement performance based reporting during its Program Year 26 and stated that the Year 26 documentation is admittedly lacking due to changes in high-level administrative personnel during this period. The Grantee did provide, however, a schedule of Economic Development Staff Responsibilities as of January 16, 2001 to support their contention that Grantee personnel performed direct services during Program Year 26. The Grantee advised they pro-rated time to arrive at a twelve-month average. The Grantee also provided examples of other performance based budget activity reports for its Management and Support Staff for periods prior to our audit period.

The Grantee stated that:

Time sheets in addition to documented field reports are currently being maintained by staff personnel to determine administrative and direct service activities provided by the

staff. These time sheets and documented field reports are submitted to program directors for review and approval. Both the time sheet and the field reports are forwarded to the Assistant Grantee Manager for approval. The time sheets will be forwarded to the budget office with the intention of allocating employees time towards the appropriate funding sources. All Grantee department's financed under the Block Grants will be required to follow this same process in the future.

The Grantee believes that the costs cited will be deemed supported and eligible and, if required, an amended reallocation process will show that administrative and direct service allocations were properly expended.

Due to its voluminous content, the Grantee's entire response was forwarded to CPD under a separate letter. We included the narrative to the Grantee's response in Appendix C.

OIG Evaluation of Auditee Comments

Our review determined that the Grantee lacked an approved allocation compliant with OMB Circular A-87 Cost Principles for State and Local Governments that reflects actual hours worked on each program signed by each employee. In interviews, the Grantee acknowledged its lack of an approved plan. Without an approved allocation plan, all salaries, related fringe benefits and any overhead costs using the same methodology are questionable. We also reached our conclusion based upon existing HUD regulations and Federal Cost Principles coupled with an analysis of employee time allocation sheets, interviews with employees, and discussions with Grantee management.

The Grantee contends that our conclusions were based on a limited understanding of its overall revitalization strategy, as well as the level of staff involvement on those activities. The Grantee also believes that the interviews we conducted, along with our review of the employee time allocation sheets for the audit period, formed the basis of our conclusions. Our understanding of the Grantee's overall revitalization strategy and level of staff involvement was limited only to the extent in which the Grantee provided information and documentation to support its revitalization strategy and level

of staff involvement. The Grantee's revitalization strategy is not relevant to our conclusions.

Although the Grantee provided additional documentation for our review and consideration, this documentation was limited generally to the Grantee's Program Year 25, contained some data input errors, and did not correlate the performance based reports and the allocation in place during the audit period. The Grantee provided some aspect of direct services through its WHIP and ED Program, but was unable to produce a valid basis for the allocation of salaries. The Grantee's allocation was based on the available funding resources, rather than the actual time spent by its employees on each Program, which is contrary to Federal Cost Principles.

The Grantee also referred to the HUD Annual CDBG Assessments for the Grantee's Program Years 23, 24, and 25. With the exception of Program Year 25, these Assessments covered years prior to our audit period. The Assessments covering the Grantee's Program Years 23 and 24 recognized the Grantee for administrative excellence and its leveraging capacity. The Assessments provided do not constitute monitoring reports and are not meant to be a comprehensive evaluation of specific programs. Further, the Assessment for Program Year 24 cited a concern with the overall decrease in the level of housing productivity while, at the same time, the number of staff assigned increased. The Assessment stated that, based on conversations with the Grantee staff, personnel worked on other projects including demolition and tax title properties that may have contributed to a decrease in productivity. More importantly, the Assessment stated,

The employee's time is not being charged appropriately. A review should be conducted in order to determine if the program staff is charging their time to the appropriate categories.

Our review concluded that the Grantee's employees were, in fact, charging their time incorrectly as direct service costs to the WHIP and the ED Program.


Recommendations

We recommend that you:

- 1A. Instruct the Grantee to establish, and submit for HUD approval, an appropriate method for allocating direct and indirect costs to the WHIP and the ED Program, in accordance with Federal Cost Principles, for implementation retroactive to July 1, 2001, and for use subsequent to Program Year 26.
- 1B. Instruct the Grantee to provide sufficient documentation to support the \$569,961 (\$424,073 – Salaries; \$68,142 – Fringe; and \$77,746 – Ordinary Maintenance) in unsupported costs; or reimburse the CDBG Program from non-Federal funds accordingly. As the questioned costs relate to the number of hours specific individuals allocated to the Grantee’s WHIP and ED Program, the supporting documentation should clearly identify the number of hours attributed to each specific individual and the methodology used to determine those hours.
- 1C. Require the Grantee to reimburse the ineligible costs of \$331,386 to the CDBG Program from non-Federal funds (\$285,958 – Salaries and \$45,428 – Fringe) or provide documentation to support the reallocation of those costs to Planning and Administrative Costs.
- 1D. Require the Grantee to use non-Federal funds to reimburse the CDBG Program any amount in excess of the 20 percent statutory limitation on CDBG Planning and Administrative Costs. This reimbursement should include any excess costs identified after proper allocation of the administrative costs currently charged to the WHIP and the ED Program.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit objectives. We considered the management control systems of the City of Worcester (Grantee), specifically as they related to the Community Development Block Grant (CDBG) Program in order to determine our audit procedures and not to provide assurance on management controls.

Management controls consist of a plan, organization, methods, and/or procedures adopted by management to ensure 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, maintained, and fairly disclosed in reports.

Relevant Management Controls

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

- Controls over the administration of the CDBG Program;
- Controls over program receipts and disbursements to ensure that costs charged were eligible, reasonable, and met at least one national objective;
- Controls to ensure adequate documentation supporting program expenditures was maintained;
- Controls to ensure that the Grantee was adequately monitoring subrecipient activities; and
- Controls over monitoring overall program performance.

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, maintained and fairly disclosed in reports.

Significant Weaknesses

Our review identified a significant weakness in the allocation method used by the Grantee for the costs of salaries, related fringe benefits, and ordinary maintenance costs. The Grantee lacked the necessary controls to ensure that these costs were properly allocated to the CDBG Program for those employees who worked on multiple programs. These weaknesses are discussed in the finding section of this report.

Ineligible and Unsupported Costs

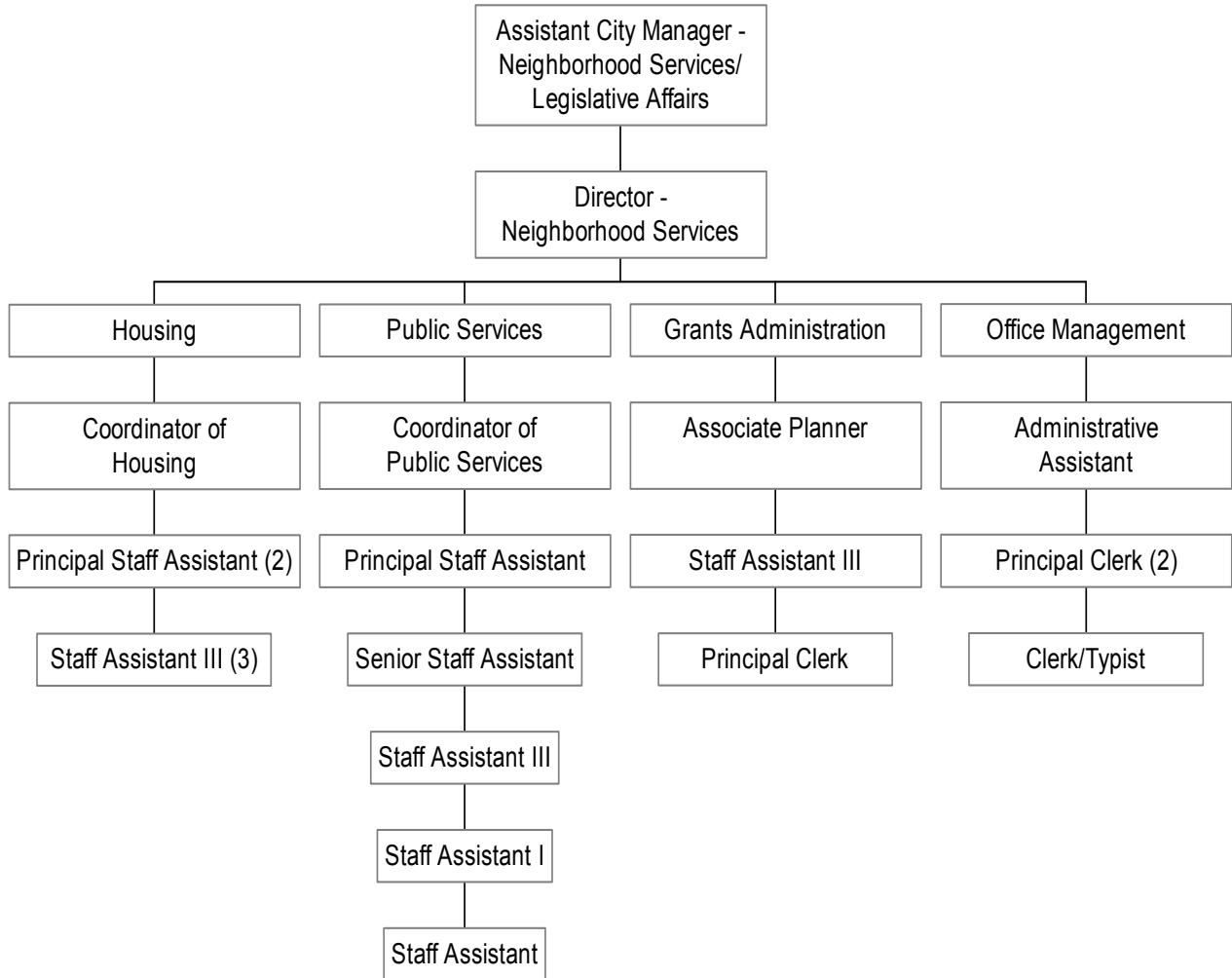
Finding 1	Ineligible Costs <u>1/</u>	Unsupported Costs <u>2/</u>
Salaries, fringe and ordinary maintenance costs allocated directly to the CDBG Program without adequate documentation		\$569,961
Salaries and fringe benefits allocated directly to the CDBG Program, when they were ineligible as direct costs to the CDBG Program	\$331,386	

1/ Ineligible costs are those costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.

2/ Unsupported costs are those costs whose eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation.

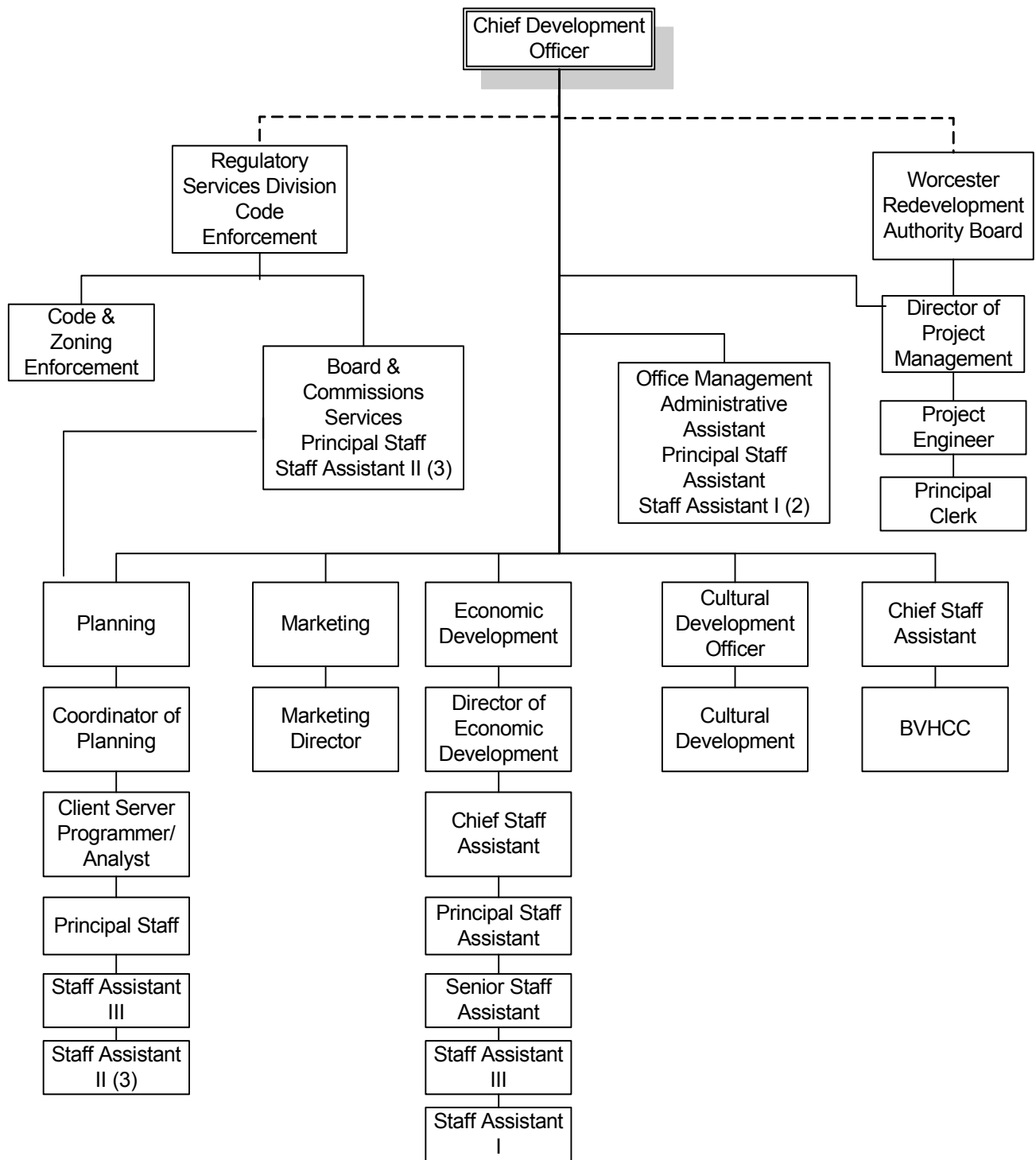
Post-Reorganization Charts

EXECUTIVE OFFICE OF NEIGHBORHOOD SERVICES



Note: (2) or (3) is the number of positions for each title

EXECUTIVE OFFICE OF ECONOMIC DEVELOPMENT



Note: (2) or (3) is the number of positions for each title

Auditee Comments

THOMAS R. HOOVER
CITY MANAGER



CITY OF WORCESTER

March 8, 2002

Mr., Barry Savill
District Inspector General for Audit
New England Office
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street, Room 370
Boston, Massachusetts 02222-1092

Dear Mr. Savill:

Re: Inspector General Audit Worcester Community Development Block Grant Program

Relative to your February 15, 2002 transmittal of the *Draft Report* on your Office's review of the City of Worcester's Community Development Block Grant Program, please consider the attached report as our official response to your draft findings. It is hoped and anticipated that you will find that the documentation herewith provides the Inspector General with sufficient justification and clarification relative to the findings. Specifically, I trust that you will agree that the City's *CDBG* activities and outcomes during this time period will demonstrate that the City of Worcester has upheld both the letter and intent of the *Department of Housing and Urban Development Regulations* in carrying out the national objectives of the *CDBG program*. In support of these contentions, attached to this report are *HUD Annual CDBG Program Assessments* for the *CDBG Years 23, 24, and 25*. These Assessments were used as guidance and management direction in the administration of the Worcester *CDBG* program.

As indicated during these assessment periods, HUD cited the City of Worcester for "*Administrative Excellence*" and "*Outstanding leveraging of other resources*" in the operation of the *CDBG* program. The City was also nominated for "*Best Practice*" recognition during this period.

In your review of the material that follows, I want to acknowledge and note that our documentation covers only the *CDBG Year 25* period (July, 1999 - June 2000), and also profiles current Housing staff activity in order to verify that the *CDBG* operations and neighborhood activities relative to categorical *CDBG* outcome has not changed, but has responded in accordance with the needs of our targeted neighborhood strategy areas.

OFFICE OF THE CITY MANAGER, CITY HALL, WORCESTER, MASSACHUSETTS 01608
TELEPHONE (508) 799-1175 FAX (508) 799-1208
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The Year 26 documentation is admittedly lacking, and is due to changes in high-level administrative personnel during this period.

Please note that the subsequent reorganization of my *Executive Office of Planning and Community Development* in early 2001 was the main impetus for this CDBG program review, according to the Draft Audit Report. In the event of a finding in the final Audit Report, I also am confident that the current management team in place as a result of the reorganization has initiated and will implement any corrective measures necessary.

Over the course of this audit, which was performed in a very thorough and professional manner, certain cost allocations were questioned relative to their relationship to individual staff activities. These categorical activities were then questioned relative to their applicability to the defined CDBG activity under which staff was funded. The audit concludes that the staff activities and consequent salary allocations were in some cases unsupported and in other cases ineligible CDBG expenditures. The field auditors reached this conclusion based on a limited understanding of the City's overall revitalization strategy, as well as the level of staff involvement on these activities, and were limited to this understanding when conducting employee interviews regarding staff activities and responsibilities. These interviews, as well as a review of the employee time allocation sheets over the audit period, form the basis for the Audit findings.

I respectfully submit that the findings of the Draft Audit are incorrect, and request your consideration of the following report as justification in this matter.

Sincerely,



Thomas R. Hoover
City Manager

C: Todd Hebert, Auditor

City of Worcester Massachusetts

City of Worcester Massachusetts
Response to Draft Audit Report
Office of Audit, New England
Boston, Massachusetts

1. Overview of Audit Findings

This transmittal represents the City's comments relative to the *Draft Audit Report* of Worcester's *Community Development Block Grant Program* for the period *July 1, 1999 - June 30, 2001*. This audit review was initiated in response to the Administrative Reorganization of the former *Executive Office of Planning and Community Development* in February 2001. As stated, the audit objective was to "determine whether the Grantee's ongoing reorganization was effective and allowed the grantee to fulfill its *CDBG* program responsibilities."

While the audit found that the City "utilized its *CDBG* funds in an efficient and effective manner", the I.G. "identified problems with the administration of the program". The report concludes that the "City of Worcester improperly allocated salaries and related expenses as direct costs to the *CDBG* program resulting in significant unsupported and ineligible costs. According to the report, the auditors are questioning \$901,347 in unsupported and ineligible costs during program *Years 25 and 26*. These costs are broken out as follows:

1.	<i>Salaries*</i>	\$ 710,031	\$ 424,073	unsupported (60%)
			285,958	ineligible (40%)
2.	<i>Fringe</i>	\$ 113,570	68,142	unsupported (60%)
			45,428	ineligible (40%)
3.	<i>Ordinary Maintenance</i>	\$ 77,746	77,746	unsupported
	Total	\$901,347	569,961	unsupported (63%)
			331,386	ineligible (37%)

**Salaries*

WHIP	Unsupported	\$285,213
WHIP	Ineligible	213,866
ED	Unsupported	138,860
ED	Ineligible	72,092
	Total	\$710,031

The audit concluded that the City allocated salary and fringe costs based on available revenue sources rather than work time spent on each program. The program allocations in question are the *Worcester Housing Improvement Program (WHIP)* and the *City's Economic Development Program (ED)*. The basis for these conclusions was the Field Auditors' understanding of these programs and interviews conducted on an individual basis with Office Staff.

I attached for reference the HUD/CPD Annual Assessment letters for the Fiscal Years ending June 1998 (CDBG Year 23), June 1999 (CDBG Year 24), and June 2000 (CDBG Year 25). In each assessment, the City was recognized for "Administrative Excellence" in the implementation of the *CDBG* program. In all the years, the assessment noted that the

City of Worcester is making adequate use of CPD resources in the areas of affordable housing and economic development, and generates a very high public to private leverage ratio through the use of these funds.

The audit concludes that certain staff time whose costs were allocated to WHIP and ED as Direct Service Program Costs are permissible. However, the city failed to provide the IG with sufficient evidence to conclude that the amounts charged were appropriate.

Furthermore, the IG concludes that certain services performed by personnel in their opinion are administrative and therefore ineligible as a Direct Service to the program.

The IG concludes that the time allocated by personnel for this service more appropriately should be charged to the 20% CDBG Planning and Administration Allocation of the CDBG program.

The Audit recommendations and the City's draft comments follow:

- 1. That the City establish and submit for HUD approval an appropriate method for allocating direct and indirect costs for implementation retroactive to July 1, 2001.**

Comment: Time sheets in addition to documented field reports are currently being maintained by staff personnel to determine administrative and direct service activities provided by the staff. These time sheets and documented field reports are submitted to program directors for review and approval. Both the time sheet and the filed reports are forwarded to the Assistant City Manager for approval. The time sheets will be forwarded to the budget office with the intention of allocating employees time towards the appropriate funding sources. The budget office places the time sheets in the file along with the weekly payroll records.

The Budget office will review the actual allocation of time against budget to identify variances and forward the results to the Assistant City Manager for review. All City department's financed under the Block Grants will be required to follow this same process in the future. Each CDBG funded department will also

be contracted individually through formal requests for service proposals issued by the Office of Neighborhood Services.

2. **That the City provide sufficient documentation to support those costs deemed unsupported and/or ineligible. Otherwise the City shall reimburse the CDBG program accordingly with non-federal funds.**

Comment: The City believes that the majority of those costs deemed unsupported/ineligible will be supported and deemed eligible under C.F.R. 570.201 - 204.

3. **That the City reimburse the CDBG program from non-federal funds any amounts which exceed the 20% Administrative Cap.**

Comment: If required, we believe that an amended reallocation process would show proper expenditures of both administrative and direct service allocations. Administrative expenditures during the Audit period were \$37,908 *below* the 20% Cap, and the documentation which follows will demonstrate that eligible direct services activities were performed by office staff.

City of Worcester Comment regarding in-house Direct Services

The City of Worcester conducted CDBG activities as direct services to the City's Housing, Economic Development, and Capital Improvement Agenda. These activities are of a specialized nature and relate directly to CDBG eligible outcomes, based on the following C.F.R. references:

Direct Service Activity through use of in-house staff under the City of Worcester Community Development Block Grant Program.

CDBG activities are either administered or provided as direct services through the recently reorganized Office of Neighborhood Services, the Office of Economic Development, and the Financial Services division of the City Budget Office.

Under CFR 570.200 (f), activities eligible under this part...may be undertaken by the recipient through a.) its own employees, or b.) through procurement contracts.

In determining the direct service activities that are carried out by in-house staff, it is important to differentiate between these activities and activities allowed by 570.205 and 570.206, which are eligible under the 20% Planning/Admin cap. These activities include both planning, urban environmental design, and policy-planning-management-capacity building activities under 570.205, as well as costs required to Administer the CDBG program under 570.206.

Direct Service activities, which do not fall under the 20% cap, are those that are identified specifically with a particular final CDBG-eligible cost objective or outcome. Under Worcester's CDBG program, numerous direct service activities have been undertaken requiring the involvement of Direct Service Staff, Management Staff, and Support Staff. The following activities involving CDBG-supported staff were implemented during the Audit period:

A. Worcester Housing Improvement Program - Direct Services Description

The Worcester Housing Improvement Program (WHIP) operates under Direct Services and represents a broader definition of WHIP as a comprehensive Neighborhood Revitalization Strategy rather than a categorical housing repair effort. The Inspector General interpreted WHIP under a more narrow definition which included only physical housing repairs. Although WHIP activities are component to our efforts, these activities represent only one element of the program. The interview process conducted by the Inspector General's Office limited the questioning to the Worcester Housing Improvement Program (WHIP). The personnel interviewed therefore answered the questions in the same context. We have since reviewed all associated staff activity and request consideration of the following activities as eligible Direct Service Activities under the CDBG program for the years in question:

570.201 (b) Disposition. Disposition, through sale, lease, donation, or otherwise, of any real property acquired with CDBG funds or its retention for public purposes.

NOTE: while we do not acquire properties with CDBG, we work through tax title foreclosures to develop affordable housing and otherwise promote neighborhood stability

under the abutters lot program, under which tax foreclosed properties are sold to property owners for use as garden areas, recreation lots, and off-street parking.

570.201 (d) Clearance Activities. Clearance, demolition, and removal of buildings. These activities are funded through CDBG, LLEBG, and Tax Levy sources.

570.202 (a) (1) Rehabilitation assistance on privately-owned buildings and improvements for residential purposes.

570.202 (b) (9) Rehabilitation Services, such as rehabilitation counseling, energy auditing, preparation of work specifications, loan processing, inspections, and other services related to assisting owners, tenants, contractors, and other entities, participating or seeking to participate in rehabilitation activities authorized under this section...

570.202 © Code Enforcement. ...in deteriorated areas where such enforcement , together with public improvements, rehabilitation, and services to be provided, may be expected to arrest the decline of the area.

DIRECT SERVICES associated with any given project utilizing the Housing Division and Support Staff include:

1. Project Feasibility. Assessment of individual project feasibility, owner qualifications, and negotiation of funding commitments.
2. Direct Housing Rehabilitation Services, including cost estimating, preparation of work write-ups, home inspections, contract bid coordination, contractor oversight and negotiation, change order approval and processing, and project closeout activities.
3. Project Management, including daily and weekly coordination of construction activities.

4. Loan Review and Processing. Intake, review and recommendations for Get The Lead Out, CDBG Emergency Repairs, HOME Downpayment assistance, HOME rehab, Soft Second Loan and Purchase Rehab programs.
5. Loan Underwriting. Determine underwriting terms and available resources, sources and uses analysis, income/expense proforma, repayment and affordability objectives.
6. Relocation Services. Work with owners, developers, occupants, to provide relocation services and assistance pursuant to Uniform Relocation requirements.
7. Demolition and Board-up of Unsafe Structures.
8. Acquisition and Disposition of Tax Foreclosed properties for Affordable Housing and Neighborhood Revitalization.

WHIP Direct Service Outcomes

In total over the audit period July, 1999 to June, 2001, the City of Worcester produced 230 units of housing in the CDBG Neighborhood Strategy Areas, completed the demolition of 20 unsafe and hazardous structures, boarded up 27 unsafe and unsecured structures, and prepared and processed 95 first time homebuyers, Downpayment Assistance, Soft-Second, and Get the Lead out Loans.

B. Worcester Economic Development Program - Direct Service Description

The Worcester Economic Development Program funded under the *Community Development Block Grant* program provides a comprehensive list of both direct and indirect services. Direct Services are provided in accordance with and in direct support of C.F.R. 570.203 (b) "The provision of assistance to a private, for-profit business, including loans, grants, loan guarantees, interest supplements, technical assistance, where the assistance is necessary and appropriate to carry out an economic development project". Those activities are complemented by direct project management services for major city economic initiatives.

Direct Services associated with any given project utilizing the Economic Development Division and Support Staff include:

1. Coordination and Management of the City's MicroLoan Program for small businesses. This task incorporates loan intake and processing, review and recommendation for individual clients, due diligence relative to underwriting terms, available resources, sources/uses analysis, income/expense proforma review, repayment and affordability objectives;
2. Coordination and Management of the City's Environmental Remediation fund. Tasks incorporated in (1) above;
3. Development and Management of Facade Improvement Loan fund. Tasks above;
4. Development, Management and coordination of the City's HUD Section 108 Loan Guarantee Program. Tasks above;
5. Technical Assistance to business and individuals;
6. Development, Management, and Coordination of the Worcester Economic Development Incentive Program. The EDIP is a major business incentive program under which the City provides tax relief to promote business location and expansion. Services include negotiation, intake, technical application assistance and packaging of the application for local and state approvals;
7. Capital Project Management. Activities include financial management and packaging, project design coordination, project bidding, contract award, construction contract oversight and field coordination, field inspections, and project close-out;
8. Gardner Kilby Hammond Project Initiative. This neighborhood redevelopment initiative requires direct services of CDBG staff. Consultant coordination, coordination with a local Community Development Corporation, financial

packaging and intergovernmental grant application, land assembly, environmental assessment, and overall project management activities for Phase1 implementation.

Process ongoing;

9. South Worcester Industrial Park. This project was developed by CDBG staff and incorporates Direct Services, including concept development, design coordination, grant solicitation and management, land assembly, environmental mitigation, and business recruitment.

ED Direct Service Outcomes

During the Audit period, CDBG funded staff provided direct technical assistance to over 200 businesses, prepared and negotiated five (5) Certified Project applications which resulted in private capital investment of \$62.7 million and the creation or retention of 471 jobs. Six (6) microloans were approved which resulted the creation of seventy-eight (78) new jobs, and one (1) Section 108 loan guarantee was developed and approved for the Gardner Kilby Hammond project. Two (2) EDA grant applications were submitted and approved for the Mass. Biomedical Initiatives relocation project and the South Worcester Industrial Park, and two (2) projects were funded under the Brownfields Environmental fund.

C. Special Projects - Direct Service Description

Additional Direct Service activities were the responsibility of Management Staff, funded in whole or in part with CDBG. These activities were assigned to higher level management staff due to the complexity of the project or in response to a specific Urgent Need of the Worcester Community. The following projects were initiated during this time period and are completed or are in various stages of implementation. Management and support staff were therefore providing Direct Services in these cases.

Director, Deputy Director(s) Direct Service activities with support staff:
July, 1999 – June, 2001

Economic Development activities/Housing Activities

1. *South Worcester Industrial Park.* Concept development, design coordination, grant solicitation and management, land assembly, business recruitment.
2. *Gardner Kilby Hammond Project.* Consultant coordination, CDC coordination, financial packaging and application (EDI grant, EPA assessment grant, HUD 108 loan, Life initiative financing) for the \$3.9 mm Phase 1 Gardner Kilby Hammond project. Consultant Management, financial pro formas, financial underwriting and packaging of multiple grant sources. Project implementation in process. (S. O'Neil, D. Hennessy, Ed staff)
3. *Worcester Senior Center Project.* Financing, design, and construction contract management for the construction of the \$4.5mm, 30,000 s.f. Senior Center project. Activities included designer selection, contract negotiation and management, bid coordination and construction contract management, field coordination, and project closeout activities. (D. Hennessy and S. O'Neil)
4. *Webster Square Fire Station.* \$4mm fire station facility. Financing, project design and construction coordination, field inspections, and project closeout. (S. O'Neil, D. Hennessy)
5. *Abandoned Buildings Initiative* The City Manager's Abandoned Buildings Initiative was convened in the aftermath of the December, 1999 Worcester Cold Storage Warehouse fire, a tragic local occurrence which claimed the lives of six (6) City Firefighters. At that time, a Task Force developed and issued 26 recommendations that are in various stages of implementation designed to 1) minimize hazards to firefighters entering abandoned buildings, and 2) ensure that local vacant buildings are secured to prevent entrance by unauthorized or vagrant persons. The Abandoned Building Initiative is a major undertaking that addressed local public safety concerns, a local Urgent Need, and also provided opportunity to identify properties that could be targeted for Housing and Economic

Development. CDBG - funded staff have been involved in Management of the project, facilitating and coordinating Abandoned Building activities, and in the identification and securing of abandoned properties for future redevelopment.

Direct Services Documentation - Methodology and Assumptions

In order to document staff activities and associated allocation as supported and eligible under the CDBG program, attached are supplemental Performance-based activity reports that were used by Office Staff for the period July, 1999 - June, 2000. During the period July, 1998 - June, 2000, the City Manager initiated a Performance-Based Management System whereby each Executive Department, and each Division within that Department developed written projected performance goals and objectives for the twelve-month fiscal year. The City has been able to locate Performance-based reports for both the Housing and Economic Development Staff during the 12 month period July, 1999 - June, 2000. We also have located sample Performance reports for Management and support staff for the period July 1998 - June, 1999 which profile activity during that period. Unfortunately, Performance-based reporting was not implemented for FY July, 2000 - June, 2001, although a similar report was generated by the Economic Development staff, and is attached to show the activities of that staff during this period. Where individual staff did not enter monthly activity, we pro-rated time to arrive at a twelve (12) month average. We have also used the *Fiscal Year 2000* as a basis for calculating activities for *Fiscal Year 2001*.

The attachments are intended to demonstrate that the described Direct Service activities were in fact undertaken, and that the Performance-based documentation will support the *WHIP* and *ED* allocations when applied in the context of a broader definition of these programs. Likewise, the Performance-based profiles for both Management and Support staff identify additional direct services activities that were assigned to higher level management.

The Direct Service Activities supported by the attached documentation is summarized as follows for the period July 1, 1999 - June 30, 2000:

1. *Worcester Housing Improvement Program (WHIP)*. Given the comprehensive focus of the City's WHIP Program, the following CDBG activities were charged as direct services: 570.201 (b) Disposition, 570.201 (d) Clearance, Demolition, 570.202 (a)(1) Rehabilitation Assistance, and 570.202 (b)(9) Rehabilitation Services.

Based on the Performance-based budget documentation, and incorporating the above assumptions, we believe the total amount in question is supportable.

2. *Worcester Economic Development Program*. The Worcester E.D. program provides Direct Service Activities under 570.203 (b).

Based on the Performance-based budget documentation, and incorporating the above- assumption, we believe the total amount in question is supportable.

3. *Worcester Urgent Needs and Project Management* activities are CDBG - eligible activities. We believe that any activities which posed eligibility questions under the *WHIP* or *ED* programs can be reallocated as categorical Direct Services which will not effect the 20% Planning and Administration Cap under 570.205 and 570.206.

Distribution

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Deputy Assistant Inspector General for Audit, GA
Assistant Inspector General for Audit, GA
Assistant Inspector General for Investigation, GI
Acting Director, Program Research and Planning Division, GAP
Director, Information Systems Audit Division, GAA
Counsel to the Inspector General, GC
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Semi-Annual Report Coordinator, GF
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Director of Internal Affairs, GF
Secretary, S
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Deputy Chief of Staff for Policy & Programs, S
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Assistant to the Secretary for White House Liaison, F
Press Secretary/Senior Communications Advisor to the Secretary, W
Chief Executive Officer for Administrative Operations and Management, S
Assistant Deputy Secretary for Field Policy and Management, SFD
Chief Information Officer, Q
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Assistant Secretary for Public and Indian Housing, P
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Director, Office of Departmental Equal Employment Opportunity, U
Director, Office of Departmental Operations and Coordination, I
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Director, Office of Healthy Homes and Lead Hazard Control, L
General Deputy Assistant Secretary for Policy Development and Research, H
General Deputy Assistant Secretary for Fair Housing and Equal Opportunity, E
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Departmental Audit Liaison Officer, FMA
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Steve Redburn, Chief, Housing Brach, Office of Management & Budget, 725 17th Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503

The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Bldg., House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Bldg., House of representatives, Washington, DC 20515

Andy Cochran, House Committee on Financial Services, 2129 Rayburn H.O.B., Washington, DC 20515

Clinton C. Jones, Senior Counsel, Committee on Financial Services, U.S. House of Representatives, B303 Rayburn H.O.B., Washington, DC 20515

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Last Saved On: 3/27/02 12:10 PM
Last Saved By: Vincenta Carolina
Total Editing Time: 26 Minutes
Last Printed On: 3/27/02 12:11 PM
As of Last Complete Printing
Number of Pages: 52
Number of Words: 7,161 (approx.)
Number of Characters: 40,819 (approx.)