



U.S. Department of Housing and Urban Development
Office of Inspector General
Pacific/Hawaii District
450 Golden Gate Avenue, Box 36003
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MEMORANDUM NO:
2002-SF-1803

April 24, 2002

MEMORANDUM FOR: William K. Barth, Director
Office of Community Planning and Development, 9DD

FROM: Mimi Y. Lee
District Inspector General for Audit, 9AGA

SUBJECT: City of Pomona
Community Development Block Grant Program
Pomona, CA

INTRODUCTION

We performed a limited review of the use of HUD Community Development Block Grant (CDBG) program funds by the Latino Chamber of Commerce (LCC), a subgrantee of the City of Pomona. The review was initiated in response to a request by the Los Angeles Office's Acting Senior Community Builder/Coordinator. The Acting Senior Community Builder, after discussion with you and your staff, requested we evaluate a complaint alleging the LCC had used its CDBG subgrantee allocation from the City of Pomona for ineligible activities. Although we did not find evidence to support the complaint allegation, we did note concerns with the City of Pomona's oversight of its subgrantee as well as problems with the LCC's management controls and documentation supporting program activities.

METHODOLOGY AND SCOPE

We interviewed HUD staff; reviewed Los Angeles HUD office Community Planning and Development (CPD) files; reviewed the City of Pomona's files relative to the LCC; and conducted an on-site review at the LCC to determine if CDBG funds were used for eligible activities. Our review was conducted during the period November 2001 to December 2001 and generally covered the LCC's program expenditures and activities during the period July 1, 1999 to June 30, 2000.

BACKGROUND

The LCC used its allocated CDBG funds to operate its Small Business Assistance Program intended to provide technical assistance to local businesses and assist low to moderate income individuals with job placement. The amounts allocated to the LCC represented approximately two percent of the city's total CDBG funds. Recent CDBG program funding amounts to the LCC were as follows:

- | <u>Program Year</u> | <u>Amount</u> |
|----------------------------|----------------------|
| • 1998 – 1999 | → \$80,000 |
| • 1999 – 2000 | → \$62,000 |
| • 2000 – 2001 | → \$54,000 |

RESULTS OF REVIEW

Summary

The complaint alleged Pomona City Council members sat on the board of directors for the LCC (subgrantee), and these individuals received campaign contributions from the LCC's CDBG funds allocated from the City of Pomona (grantee). The complaint noted "questionable" payments associated with an advance account set up for the LCC's CDBG program and indicated these payments may have been deposits into political campaign accounts of Pomona City Council members. The payments noted in the complaint occurred between January 1, 2000 and June 30, 2000. Our review found these transactions, involving the LCC's CDBG advance account, were actually funds transfers between the LCC's main operating bank account and their CDBG program bank account and did not involve payments to other parties as alleged in the complaint. The LCC staff explained these payments, and the associated advance account, were used to cover program costs incurred prior to the receipt of CDBG program funds. We further found that Pomona City Council members did not sit on the LCC's board of directors, nor did they hold any leadership positions within the LCC during the period in which CDBG funds were used .

City of Pomona's Monitoring of Subgrantees

Although we did not find evidence to support the complaint allegation, our review found the City of Pomona failed to adequately monitor its subgrantee, the LCC. The city did not take appropriate and timely follow-up action when the LCC failed to produce records requested as part of a monitoring review started at the LCC on August 14, 2001. This failure is particularly significant considering the City was aware of allegations that CDBG funds were being misused by the LCC. City of Pomona staff responsible for the monitoring review stated they had not pursued the matter further because they did not have sufficient staffing to adequately oversee the City's large number of CDBG subgrantees (A Pomona City Council report indicates the City of Pomona has over three times the average number of CDBG funded activities as four other

federal entitlement cities within the San Gabriel Valley). The City of Pomona had only one project monitor responsible for reviewing the City's housing department subgrantees.

After OIG's visit to the City in November 2001, the City notified the LCC they would withhold future CDBG funds as a result of the LCC's failure to produce program records. In February 2002, the Pomona City council adopted a plan to streamline its CDBG allocation process, reduce the number of sub grantees, focus CDBG money on areas with the greatest need, grant more money to larger organizations and focus on past performance and compliance prior to granting additional funding. Although these steps represent improvements to the City's allocation process and should reduce the number of subgrantees that will require monitoring, the steps do not include new policies or plans necessary to ensure adequate monitoring reviews are conducted on all of the City's subgrantees.

LCC's Inadequate Management Controls and Lack of Documentation Supporting Program Activities.

We identified a number of concerns with LCC's management controls and documentation of program activities and accomplishments that should have been addressed and resolved as part of the City of Pomona's monitoring review. We found:

- For the 1999-2000 CDBG funding year, the LCC incurred consulting costs that far exceeded budgeted amounts and then submitted inaccurate and misleading reports to the grantee as part of its requests to draw down CDBG funds. In these reports the LCC claimed its Small Business Assistance Program Director was paid the budgeted amount of \$8,770 in consulting fees, however, he was actually paid over \$30,000.
- For years after 1997, the LCC did not have a written contract in effect for consulting services that accounted for a large portion of its CDBG program expenditures.
- Available information indicates the LCC apparently did not file Internal Revenue Service (IRS) form 1099's for payments made to the Program Director for consulting services.
- The LCC failed to establish and implement basic internal controls associated with payments for payroll and consulting services such as requiring second signature approvals on time cards and checks.
- The LCC's CDBG advance account had a negative balance of \$4,617.00 as of June 30, 2000 indicating CDBG funds may have used to provide cash advances to the LCC's general operating account.
- The LCC did not maintain adequate documentation supporting its CDBG funded program accomplishments in the areas of job creation, job placement and small business assistance loan processing. Additionally, it appears the LCC may have

overstated its accomplishments in quarterly reports to the City of Pomona by including initial contacts with potential clients as completed activities.

- The LCC claimed some of the problems noted above were the result of intentional actions of a disgruntled former employee (treasurer). In this regard, we found LCC management did not have the capacity to adequately oversee its employees and operations to ensure compliance with CDBG program requirements.

RECOMMENDATIONS

Although we are not tracking this memorandum under the Automated Audits Management System, we are recommending your office take actions to address the concerns noted during our limited review of this matter. This would include requiring the City of Pomona to:

- 1A. Develop and implement a plan to ensure monitoring of CDBG subgrantees is conducted in accordance with HUD requirements and appropriate follow-up action is taken when potential problems with subgrantees are identified.
- 1B. Ensure the LCC has filed appropriate IRS form 1099's for all contract employees paid with CDBG funds during the period 1997 through the present.
- 1C. Verify, prior to providing any additional CDBG allocations to the LCC, it has developed and implemented appropriate administrative policies and procedures which will ensure accurate financial and program accomplishment reporting, adherence to appropriate tax reporting requirements and adequate internal controls over payroll and consulting services.

If you have any questions regarding these matters, please contact Auditors David Torre or Charles Johnson at (602) 379-4675.

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