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# AUDIT REPORT



CITY OF ST. IGNACE  
ECONOMIC DEVELOPMENT INITIATIVE – SPECIAL  
PURPOSE GRANT (B-03-SP-MI-0352)

ST. IGNACE, MICHIGAN

HUD's Interest in More Than \$220,000 in Grant Funds  
Awarded to the City Was Not Secured

2006-CH-1001

NOVEMBER 10, 2005

OFFICE OF AUDIT, REGION V  
CHICAGO, ILLINOIS

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Issue Date	November 10, 2005
Audit Report Number	2006-CH-1001

TO: Francis P. McNally, Director of Congressional Grants, DECC

FROM:   
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: HUD's Interest in More Than \$220,000 in Economic Development Initiative –  
Special Purpose Grant Funds Awarded to the City of St. Ignace, Michigan  
Was Not Secured

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the City of St. Ignace, Michigan's (City) Economic Development Initiative - Special Purpose Grant (Grant). We initiated the audit in conjunction with our internal review of the U.S. Department of Housing and Urban Development's (HUD) oversight of Economic Development Initiative – Special Purpose Grants. The review is part of our fiscal year 2005 annual audit plan. We chose the City's Grant based upon a statistical sample of fiscal years 2002 and 2003 Economic Development Initiative – Special Purpose Grants, in which 90 percent or more in funds were disbursed. Our objectives were to determine whether the City used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

### **What We Found**

The City used the Grant funds in accordance with HUD's requirements. It used \$223,537 in Grant funds to pay for the construction of the St. Ignace Public Library (Library). However, it did not place a covenant on the property title for the Library assuring nondiscrimination based on race, color, national origin, or handicap.

## **What We Recommend**

We recommend that HUD's director of congressional grants assure the covenant executed on October 18, 2005, on the Library's property title ensuring nondiscrimination based on race, color, national origin, or handicap includes HUD's remedies in the event that discrimination does occur. The appropriately executed covenant with HUD's remedies should help ensure that the City protects HUD's interest in the \$223,537 in Grant funds for the Library.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

## **Auditee's Response**

We provided our discussion draft audit report to the city manager and HUD's staff during the audit. The City's library director declined our invitation for an exit conference.

We asked the city manager to provide comments on our discussion draft audit report by November 3, 2005. The city manager provided written comments dated November 4, 2005. The City executed a covenant dated October 18, 2005, on its Library. However, the covenant did not include HUD's remedies in the event that discrimination does occur. The complete text of the written response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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**The Economic Development Initiative program.** The U.S. Department of Housing and Urban Development's (HUD) Economic Development Initiative program includes noncompetitive Economic Development Initiative – Special Purpose Grants. HUD awards Economic Development Initiative – Special Purpose Grants to entities included in the U.S. House of Representatives' conference reports.

**The City of St. Ignace, Michigan.** Organized under the laws of the state of Michigan, the City of St. Ignace (City) is governed by a mayor and six-member council. The U.S. House of Representatives' Conference Report 108-10 set aside \$225,000 in Economic Development Initiative – Special Purpose Grant (Grant) funds to the City for the construction of a public library. In November 2003, HUD awarded the City a \$223,537 Grant to pay for the construction of a new 7,200-square-foot public library. The city clerk administered the City's Grant. The City's records for the Grant are maintained at St. Ignace City Hall, located at 396 North State Street, St. Ignace, Michigan.

We initiated this audit in conjunction with our internal review of HUD's oversight of Economic Development Initiative – Special Purpose Grants. The review is part of our fiscal year 2005 annual audit plan. We chose the City's Grant based upon a statistical sample of fiscal years 2002 and 2003 Economic Development Initiative – Special Purpose Grants, in which 90 percent or more in funds were disbursed.

Our objectives were to determine whether the City used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

## RESULTS OF AUDIT

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### Finding: HUD's Interest in More Than \$220,000 in Grant Funds Awarded to the City Was Not Secured

The City used \$223,537 in Grant funds to pay for construction of the St. Ignace Public Library (Library); however, the City did not place a covenant on the property title for the Library assuring nondiscrimination based on race, color, national origin, or handicap. The City did not record the covenant on the title because it lacked effective oversight of applicable Grant requirements. As a result, HUD's interest in the Library is not protected.

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#### **The City Used More Than \$220,000 in Grant Funds without Placing a Covenant on the Library's Title to Ensure Nondiscrimination**

Contrary to federal requirements, the City did not secure HUD's interest in \$223,537 in Grant funds used to pay for the construction of the City's new Library. The funds were disbursed from July through September 2004. The City failed to place a covenant on the Library's property title to assure nondiscrimination based on race, color, national origin, or handicap. The purpose of the covenant is to ensure nondiscrimination during the period in which the Library is used as outlined in the City's application for the Grant or for another purpose involving similar services or benefits. The recording of the covenant will provide HUD recourse if discrimination based on race, color, national origin, or handicap occurs in relation to the Library.

HUD also awarded the City \$175,000 in fiscal year 2001 Grant funds to pay for the construction of Library.

#### **HUD's Interest in the Library Is at Risk**

The City's library director said the City did not secure HUD's interest in the Library because the City's grant agreement with HUD did not specifically state the City was required to secure HUD's interest in the Library. However, the City's grant agreement requires the City to use the Grant funds in accordance with 24 CFR [*Code of Federal Regulations*] Parts 1 and 8, which require the City to place a covenant on the Library's property title to assure nondiscrimination based on race, color, national origin, or handicap. The city manager said the City is

willing to place a covenant on the Library's title to assure nondiscrimination during the useful life of the project. The recording of the covenant will provide HUD recourse if discrimination based on race, color, national origin, or handicap occurs in relation to the Library.

## **Recommendations**

We recommend that HUD's director of congressional grants

- 1A. A assure the covenant executed on October 18, 2005, on the Library's property title ensuring nondiscrimination based on race, color, national origin, or handicap includes HUD's remedies in the event that discrimination does occur. The appropriately executed covenant with HUD's remedies should help ensure that the City protects HUD's interest in the \$223,537 in Grant funds for the Library.
- 1B. Reimburse HUD from nonfederal funds for the Grant funds used to pay for the construction of the Library if the appropriately executed covenant with HUD's remedies is not recorded.

## SCOPE AND METHODOLOGY

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We performed the audit at the Library in September 2005. To accomplish our objectives, we interviewed HUD's staff, the City's employees, and the Library's director.

To determine whether the City used Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property, we reviewed

- U.S. House of Representatives' Conference Report 108-10,
- HUD's file related to the Grant,
- The City's financial records, and
- The Michigan secretary of state's Website for organizational information on the City.

We also reviewed 24 CFR [*Code of Federal Regulations*] Parts 1, 8 and 85; HUD Directives 1.5, 8.50, and 85.31; Office of Management and Budget Circulars A-21, A-87, A-110, and A-122; and HUD Handbook 2000.06, REV-3.

The audit covered the period from November 15, 2003, through August 31, 2005. This period was adjusted as necessary. We performed our audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

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

We assessed all of the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

Based on our audit, we believe the following item is a significant weakness:

- The City did not record the covenant on the title because it lacked effective oversight of applicable Grant requirements.

# APPENDIXES

## Appendix A

### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1A	<u>\$223,537</u>
Total	<u>\$223,537</u>

1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

### Comment 1



TO: Heath Wolfe, Regional Inspector General Audit, SAGA  
FROM: Gary L. Heckman, City Manager  
RE: HUD's Interest in More Than \$220,000 in Economic Development Initiative- Special Purpose Grant Funds Awarded to the City of St. Ignace, Michigan Was Not Secured  
DATE: November 4, 2005

As per your letter of October 20, 2005, we are responding to the Audit Report regarding referenced project. According to the recommendation of the report, the City has complied by attaching the required covenant on the property as per the enclosed certified copy of the recorded deed.

As soon as we receive the original deed, it will be forwarded to you.

Thank you.

GLH/kc

A handwritten signature in black ink, appearing to read "Gary L. Heckman", is written over the typed name.

*City of St. Ignace is an equal opportunity employer and provider  
TDD (800) 649-3777*

614 71

DIANE FRANKOVICH  
MACKINAC COUNTY REG. OF DEEDS 2P  
Page 1 of 2 CR 614/71  
DFF Date 10/18/2005 Time 15:23:55  
RECORDING FEE: 17.00

WARRANTY DEED

The Grantor(s): CITY OF ST. IGNACE PUBLIC LIBRARY, created under the Charter of said City and governed by the State Law, P.A. 1877, No. 164, as amended, MCL 397.201, et. seq., of 396 N. State Street, St. Ignace, Michigan 49781,

warrant(s) to: CITY OF ST. IGNACE PUBLIC LIBRARY, created under the Charter of said City and governed by the State Law, P.A. 1877, No. 164, as amended, MCL 397.201, et. seq., of 396 N. State Street, St. Ignace, Michigan 49781.

the following described premises situated in the City of St. Ignace, County of Mackinac, State of Michigan:

Commencing at the intersection of the South ROW of Spruce Street with the East ROW of Church Street, Private Claim 8, City of St. Ignace, Mackinac County Michigan; thence North 78°36'50" East 753.00 feet along the South ROW of Spruce Street to the Point of Beginning; thence North 78°36'50" East 350.19 feet along said ROW to the West ROW of Business I-75; thence Southwesterly 165.02 feet along the arc of a curve to the right with a radius of 894.93 feet, with a chord which bears South 13°04'20" West 164.79 feet, along said ROW; thence South 78°36'50" West 281.97 feet; thence North 11°23'10" West 150.00 feet to the Point of Beginning. Containing 1.098 acres of land in Private Claims 7 and 8, City of St. Ignace, Mackinac County, Michigan. (See attached survey)

This conveyance is subject to and the grantor covenants that the use of the premises is nondiscriminatory based on race, color or handicap, or national origin for the period the real estate is used for a public library; this covenant to run with the land.

subject to easements and building and use restrictions of record.

for the sum of: Less than \$100.00

The Grantor(s) also grant to the Grantee(s) the right to make all legally permissible divisions under Section 108 of the Land Division Act, Act No. 288 of the Public Acts of 1967 as amended.

The above described premises may be located within the vicinity of farmlands or a farm operation. Generally accepted agricultural and management practices may generate noise, dust, odors and other associated conditions may be used and are protected by the Michigan Right to Farm Act.

Dated this 18th day of October, 2005.



CITY OF ST. IGNACE PUBLIC LIBRARY

By: Bruce J. Dodson  
Bruce J. Dodson, Mayor

By: Renee Vonderwerth  
Renee Vonderwerth, Clerk

STATE OF MICHIGAN )  
County of Mackinac )

The foregoing instrument was acknowledged before me this 18th day of October, 2005, by: Bruce J. Dodson, Mayor, and Renee Vonderwerth, Clerk, of the City of St. Ignace Public Library as authorized by the St. Ignace City Council and approved by the Board of Directors of St. Ignace Public Library.

I hereby certify that all taxes are paid for the previous five years to the date of this instrument except for taxes now in the process of collection.  
Kathryn M. Cryderman  
Kathryn M. Cryderman, Notary Public  
My Commission Expires: 1/24/2008  
Acting in the County of Mackinac

Drafted By:  
Prentiss M. Brown, Jr.  
Attorney at Law  
132 North State Street  
St. Ignace, MI 49781

10/18/05  
Date  
Dora Wassay, Dip  
Mackinac County Treasurer

DIANE FRANKOVICH  
MACKINAC COUNTY REG. OF DEEDS  
1 Diane Frankovich  
County of Mackinac  
Register of Deeds in and for said County, do hereby certify above and foregoing to be a true and correct transcript from the records of this office that I have compared the same with the original records; that I believe and correct hereby certify the end of the whole of said original.  
In Witness Whereof, I have hereunto set my hand and affixed my Official Seal, at the City of St. Ignace, Michigan, this 18th day of November, A. D. 2005.  
Diane Frankovich  
Register of Deeds





## **OIG Evaluation of Auditee Comments**

**Comment 1** The City executed a covenant dated October 18, 2005, on its Library's property title. However, the covenant did not include HUD's remedies in the event that discrimination does occur. We adjusted the recommendations to address the lack of HUD's remedies in this audit report.

## Appendix C

### FEDERAL REQUIREMENTS

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The City's grant agreement with HUD, article I, section B, states the grant funds must be made available in accordance with 24 CFR [*Code of Federal Regulations*] parts 1 and 8. Section E of article I states the City will comply with 24 CFR [*Code of Federal Regulations*] Part 85.

According to 24 CFR [*Code of Federal Regulations*] 1.5(a)(2), in the case of real property, structures, improvements thereon, or interests therein, acquired through a program of federal financial assistance, the instrument effecting any disposition by the recipient of such real property, structures, improvements thereon, or interests therein shall contain a covenant running with the land assuring nondiscrimination based on race, color, or national origin for the period during which the real property is used for a purpose for which the federal financial assistance is extended or for another purpose involving the provision of similar services or benefits.

According to 24 CFR [*Code of Federal Regulations*] 8.50(c)(2), when no transfer of property is involved but property is purchased or improved with federal financial assistance, the recipient shall agree to include a covenant in the instrument effecting or recording any later transfer of the property for the period during which it retains ownership or possession of the property to assure nondiscrimination based on a handicap.

The City submitted Form HUD-424-B, Applicant Assurances and Certifications, with its Grant application to HUD. Sections 2 and 3 of Form HUD-424-B state that the City will administer the Grant in compliance with 24 CFR [*Code of Federal Regulations*] Parts 1 and 8. However, the form was not signed by a City official.