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| Issue Date | August 16, 2006 |
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| Audit Report Number | 2006-FW-1014 |
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TO: Katie S. Worsham
Director, Office of Community Planning and Development, 6AD

FROM: Frank E. Baca
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The City of Fort Worth, Texas, Has Made Significant Improvements in
Procedures for Drawing Down Community Development Block Grant Funds

HIGHLIGHTS

What We Audited and Why

Based on a request from the Fort Worth U. S. Department of Housing and Urban Development (HUD) Office of Community Planning and Development, we performed a survey of the City of Fort Worth's (City) Community Development Block Grant (Block Grant) program. In 2003, HUD performed a financial monitoring review of the City's Block Grant program and found material weaknesses in the City's administration of this program.

Based on HUD's request and monitoring review findings, we focused our review on funding drawdowns made by the City from January 1 through December 31, 2005. Our objective was to determine whether the City was including only eligible and supported costs in its drawdowns. We also wanted to determine whether the City had implemented sufficient internal controls over the draw process.

What We Found

The City has made significant improvements in drawing down grant funds since HUD's monitoring report of 2003, and has reorganized and implemented new procedures to address its lack of controls over its draw process. The City is now substantially following HUD requirements in drawing down funds for its Block Grant program.

What We Recommend

Because the City is substantially complying with HUD requirements, we did not recommend corrective action.

Auditee's Response

We provided a draft report to the City on June 30, 2006, and had an exit conference and received the City's comments on the draft on July 19, 2006. The City generally agreed that it has made significant improvements in procedures to draw down CDBG funds since the HUD monitoring review of 2003. The complete text of the auditee's response, along with our evaluation of that response, can be found in the appendix to this report.

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BACKGROUND AND OBJECTIVES

According to the City of Fort Worth's (City) 2006 comprehensive plan, Fort Worth is the nation's 19th largest city. The population of Fort Worth as of January 1, 2005, is estimated to be 618,000. The City has a city manager form of government.

Each year the U. S. Department of Housing and Urban Development (HUD) provides the City with a Community Development Block Grant (Block Grant). The amount of the grant varies and is determined on a formula basis. In 2005, the City received \$7.5 million in Block Grant funding.

The Block Grant program provides annual grants to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons.

Through monitoring reviews, HUD determines whether the Block Grant funds are being used as required. In 2003, HUD performed a financial monitoring review of the City's Block Grant program to ensure that it was being administered in accordance with HUD guidelines. The review disclosed material weaknesses in the City's administration of its program.

Based on the 2003 financial monitoring review and a request from HUD, we performed a survey of the City's Block Grant program. Our objective was to determine whether the City was following HUD requirements in administering its Block Grant program. We wanted to determine whether the City was including only eligible and supported costs in grant drawdowns. We also wanted to determine whether the City had implemented sufficient controls over the draw process.

RESULTS OF AUDIT

Although some material HUD monitoring findings are still outstanding (see FOLLOW UP ON PRIOR AUDIT FINDINGS section of this report) the City has made significant improvements in drawing down grant funds. The City revised its procedures and reorganized its Block Grant management. Due to improved drawdown procedures, grant fund drawdowns can now generally be tied to Block Grant activity expenditures documented by invoices. During our review of a sample taken from 2005 drawdowns, we determined that only an insignificant amount of grant funds was erroneously drawn down.

SCOPE AND METHODOLOGY

To determine whether the City was including only eligible and supported costs in grant drawdowns and that there were sufficient controls over the draw process, we selected a sample of grant drawdowns for review. We took our survey sample from the draws made by the City from January 1 through December 31, 2005. We selected our sample based on high dollar amounts, which represented high risk. During 2005, the City had more than \$14 million in draws. We selected our survey sample from the activities in HUD's Integrated Disbursement and Information System with draw amounts over \$200,000. There were 19 activities with draws over \$200,000. The total amount drawn for these 19 activities was \$8,897,122 during 2005. We initially selected four activities, considered high-risk activities, with draws totaling \$1,433,476 to determine whether the City included only eligible and supported costs. Out of the \$1,433,476, we selected a sample of draws totaling \$1,321,461 for detailed review. We also selected two separate activities recommended by HUD to determine whether those activities met HUD's Block Grant national objectives.

To determine whether the draws included only eligible and supported expenditures, we

- Reviewed invoices for expenditures included in draws to determine whether they were eligible and supported;
- Reviewed program requirements to determine whether the City was administering its program in accordance with City and HUD requirements;
- Interviewed City personnel to obtain background information and determine how activities were initiated and processed;
- Interviewed program participants to determine assistance received from the Block Grant program;
- Reviewed subgrantee records to determine whether expenditures were eligible and supported;
- Interviewed subgrantees to obtain background information on interaction with City officials and to determine how the program operated;
- Interviewed contractors to determine repairs made to participants' homes;
- Visited homes of participants to view repairs made using Block Grant funds;
- Interviewed HUD personnel to obtain background information on the City's program and obtain past monitoring reviews; and
- Reviewed HUD files pertaining to the City's Block Grant program.

In addition, we performed steps to ensure that the City has improved its procedures for its Block Grant program. To accomplish this, we

- Reviewed HUD monitoring reports to determine past weaknesses in the City's program;
- Reviewed current processes implemented by the City for its Block Grant draws; and
- Interviewed City personnel to determine changes made to its procedures.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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, and
- Compliance with applicable laws and regulations.

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.

Relevant Internal Controls

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

- Determining whether expenditures were eligible and supported and
- Maintaining documentation on expenditures.

We assessed 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. We noted no significant weaknesses in the City's current internal controls.

FOLLOW UP ON PRIOR AUDITS

The City Needs to Address Prior HUD Monitoring Findings

HUD's 2003 financial monitoring review disclosed seven material weaknesses in the City's administration of its Block Grant program. The City has provided documentation for HUD to close all but three of the findings of its 2003 financial monitoring review. As of June 13, 2006, the following HUD monitoring findings remain open:

Finding 1. A reconciliation of program drawdowns to the City's general ledger revealed overpayments to the City of HUD funds in the amount of \$1.36 million. In addition, the City drew down \$1 million in grant funds that were not identified or reconciled with a Block Grant activity number. The City will need to repay its Block Grant program from nonfederal funds or provide HUD adequate documentation to support the eligibility of the expenditures.

Finding 2. The City's single audit for fiscal year 2001 reported that the auditor was unable to reconcile all amounts to the City's accounting records, and the disbursement amount reported in two reports could not be reconciled to the expenditures in the general ledger. The City also failed to accurately report its program income on its federal cash transaction reports. The City must provide acceptable federal cash transaction reports and corrected financial summary reports for 1999 through 2004.

Finding 7. The City has three subrecipients that operate six revolving loan funds. For each of the three funds, the City did not compute or report the program income correctly. The City's computation often included the bank interest earned on the funds and escrow payments. The City submitted additional documentation to HUD to close this finding, and it is under HUD review.

HUD will need to work with the City to ensure adequate corrective action on each of the outstanding findings.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2


FORT WORTH

July 19, 2006

Frank E. Baca
Regional Inspector General
U.S. Department of Housing and Urban Development
Regional Office of Inspector General
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

SUBJECT: Response to Draft Report

Dear Mr. Baca:

The City of Fort Worth has reviewed the draft report of the Community Development Block Grant provided by your staff. We are aware that this audit was performed based on the request of the Fort Worth U.S. Department of Housing and Urban Development (HUD) Office of Community Planning and Development.

As noted in your draft report the City has made significant improvement in drawing down grant funds since HUD's monitoring report of 2003. The City is committed to following the policies and procedures that were either improved or developed based upon the 2003 monitoring report. To strengthen this process the City has reorganized the Housing Department to ensure adherence to these policies and procedures that govern the use of federal grant funds.

As you develop your final report we are requesting consideration of the following items:

- We request that this final report acknowledge that adequate documentation was provided to bring closure to the "prior HUD disclosure major deficiencies" as described in items 3 through 7 on page 11 of the draft report;
- As discussed by telephone we are attaching documentation to address a portion of the \$4,725 in grant funds that were identified as being erroneously drawn down without benefit to Block Grant activities. The City has been able to demonstrate that \$4,546.66 of those costs actually did provide benefit to Block Grant activities, or reimbursement was received for the unallowable expenses.

Thank you for your assistance in completing the survey. We look forward to your favorable review of the information presented. If you have any questions or concerns, please feel free to contact me at (817) 392-6140 or Deidra Emerson, Assistant Housing Director at (817) 392-7563.

Sincerely,


Dale A. Fisseler, P.E.
Assistant City Manager

attachments

cc: Charles Boswell, City Manager
Jerome Walker, Housing Director
Deidra Emerson, Assistant Housing Director

CITY MANAGER'S OFFICE
THE CITY OF FORT WORTH • 1000 THROCKMORTON STREET • FORT WORTH, TEXAS 76102
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OIG Evaluation of Auditee Comments

Comment 1 The City agrees it has made significant improvements in drawing down funds since the HUD monitoring review in 2003.

Comment 2 Based on the City's comments and additional information provided, we revised our report. We confirmed that HUD has not yet closed monitoring finding 7.