



Issue Date	January 24, 1997
Audit Case Number	97-CH-241-1005

TO: Richard A. Paul, Director, Community Planning and Development Division,  
Michigan State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Flint Neighborhood Improvement and Preservation Project, Inc.  
Community Development Block Grant, Home Investment Partnerships and Hope  
III Rehabilitation Programs  
Flint, Michigan

We completed an audit of the Flint Neighborhood Improvement and Preservation Project, Inc., a non-profit organization. We conducted the audit at the request of the Michigan State Office. The Michigan State Office was concerned about the eligibility of Flint Neighborhood's expenditures of HUD's rehabilitation program funds and its nonresponsiveness to a City of Flint monitoring review. The City of Flint conducted a monitoring review in October 1995 and identified \$27,049 in unsupported expenditures of Federal funds. The objectives of our audit were to determine whether HUD's rehabilitation program funds were used in accordance with HUD's requirements and expenditures were properly supported.

We concluded, with the exception of the unsupported expenditures identified by the City, Flint Neighborhood Improvement and Preservation Project, Inc. adequately supported its expenditures; however, the use of funds was not always according to HUD's requirements. Flint Neighborhood: (1) did not complete rehabilitation work timely; and (2) made ineligible sick pay disbursements of \$2,669. During our audit, the City of Flint reimbursed HUD \$27,049 for the unsupported expenditures identified in its review.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you or your staff have any questions, please contact me at (312) 353-7832.

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# Executive Summary

We completed an audit of the Flint Neighborhood Improvement and Preservation Project, Inc., a non-profit organization. We conducted the audit at the request of the Michigan State Office. The Michigan State Office was concerned about the eligibility of the Flint Neighborhood's expenditures of HUD's rehabilitation program funds and its nonresponsiveness to a City of Flint monitoring review. The City of Flint conducted a monitoring review in October 1995 and identified \$27,049 in unsupported expenditures of Federal funds. The objectives of our audit were to determine whether HUD's rehabilitation program funds were used in accordance with HUD's requirements, and expenditures were properly supported.

We concluded, with the exception of the unsupported expenditures identified by the City, Flint Neighborhood Improvement and Preservation Project, Inc. adequately supported its expenditures; however, the use of funds was not always according to HUD's requirements. Flint Neighborhood: (1) did not complete rehabilitation work timely and (2) made ineligible sick pay disbursements of \$2,669. During our audit, the City of Flint reimbursed HUD \$27,049 for the unsupported expenditures identified in its review.

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## Rehabilitation Work Was Not Timely Completed

The Flint Neighborhood Improvement and Preservation Project, Inc., did not ensure timely completion of rehabilitation work because its work specifications were not coordinated with the City of Flint to assure they would adequately resolve the City's code violations. As a result, Flint Neighborhood did not effectively achieve its program objectives for rehabilitation work on residences occupied by low and moderate income persons.

## Ineligible Payments Were Made For Sick Leave

The Flint Neighborhood Improvement and Preservation Project, Inc. improperly paid a former Executive Director for unused sick leave after his contract was terminated. Contrary to the HUD requirements and the Director's contract, the Board of Directors approved the payments of sick leave. As a result, the Block Grant Program was charged \$2,669 for ineligible expenses.

## Recommendations

We recommend that Flint Neighborhood Improvement and Preservation Project, Inc.: (1) establish parameters and controls to assure rehabilitation work is done timely and (2) reimburse the City of Flint \$2,669 for the ineligible sick leave payments.

We provided our draft findings to Flint Neighborhood's Interim Executive Director during the audit. We held an exit

conference on January 8, 1997 with the Interim Executive Director. The Interim Director provided written comments to our findings. We considered the comments in preparing our report. The comments are included in their entirety in Appendix B.

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# Introduction

The Flint Neighborhood Improvement and Preservation Project, Inc. provides rehabilitation services in the City of Flint for low and moderate income homeowners. Flint Neighborhood is a subrecipient under the City of Flint's Community Development Block Grant and Home Investment Partnerships (HOME) Programs. Flint Neighborhood is also a direct grantee under HUD's HOPE III Program. The funds from all three programs provide for rehabilitation of homes.

Flint Neighborhood Improvement and Preservation Project, Inc. has received the following amounts of HUD funding for rehabilitation work:

<u>Year</u>	<u>Block Grant Funds</u>	<u>Home Funds</u>	<u>Hope III Funds</u>
1993	\$2,499,478	\$1,240,200	\$750,000
1994	1,950,000	468,100	-0-
1995	3,153,550	710,575	-0-
1996	709,977	-0-	-0-
1997	<u>500,000</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$8,813,005</u>	<u>\$2,418,875</u>	<u>\$750,000</u>

Flint Neighborhood Improvement and Preservation Project, Inc. is a Michigan non-profit organization managed by a Board of Directors. The President of the Board is the chief executive officer of the organization. The Board of Directors appoints an executive director to provide supervision of the day-to-day activities of the organization.

The President of the Board of Directors is Father James Bettendorf. The official representative is Kathy Bagley, the Interim Executive Director. The books and records are maintained at 505 W. Court Street, Flint Michigan. The City of Flint's Department of Community and Economic Development oversees Flint Neighborhood's operations.

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## Audit Objective

The objectives of our audit were to determine whether HUD's rehabilitation program funds were used in accordance with HUD's requirements, and expenditures were properly supported.

## Audit Scope And Methodology

To achieve our objectives, we interviewed HUD and Flint Neighborhood Improvement and Preservation Project, Inc. staff to obtain information relating to HUD's concerns regarding the operations and controls over expenditures. We reviewed HUD's and the City of Flint's monitoring reports. We also reviewed Flint Neighborhood's policies, procedures, and independent audit reports to determine if they were being

used and followed. We randomly selected 15 case files for rehabilitated properties and reviewed payments and expenditures to assure that they were supported by source documentation. Eight cases were for full code rehabilitation work and seven were for emergency repairs.

The audit covered the period July 1, 1994 to June 30, 1996. We extended the audit period as necessary. We did the audit field work between September and November 1996.

We conducted the audit in accordance with generally accepted government auditing standards. We provided a copy of this report to the Interim Executive Director of Flint Neighborhood Improvement and Preservation Project, Inc.



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# Rehabilitation Work Was Not Completed Timely

Flint Neighborhood Improvement and Preservation Project, Inc., did not ensure timely completion of rehabilitation work because its work specifications did not address all code violations reported in the City of Flint's code violation inspections. Flint Neighborhood did not coordinate with the City to ensure its work specifications adequately addressed the code violations. As a result, Flint Neighborhood did not effectively achieve its program objectives for rehabilitation work on residences occupied by low and moderate income persons.

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## Flint Neighborhood's Requirements

Paragraph 5 of Flint Neighborhood's standard rehabilitation contract requires the contractors to complete rehabilitation work within 60 days of a notice to proceed.

According to the City of Flint and Flint Neighborhood's procedures, the property must be initially inspected by the City of Flint and all City code violations identified. The violations identified must be included in the work specifications prepared by Flint Neighborhood's Rehabilitation Specialists. The procedures also require the City to make a final inspection at the completion of the work to assure that all code violations were corrected.

## Rehabilitation Work Was Not Timely Completed

Flint Neighborhood Improvement and Preservation Project, Inc., did not ensure contractors completed rehabilitation work funded under the Block Grant and Home Programs within 60 days as required by their contracts. Flint Neighborhood's Rehabilitation Specialist said the 60-day completion requirement in the standard contract was not feasible, because the City of Flint required all rehabilitated properties to fully meet the City's code requirements. Consequently, contractors were not penalized for exceeding the 60-day completion terms. He said a more reasonable timeframe for contracts that require full compliance with the City's code would be 120 days.

However, seven of eight contracts we randomly selected for review were not completed even within 120 days. One contract was completed in 105 days. Five of the seven contracts took an average of 222 days. The range for

completion was from 197 to 302 days. The remaining two contracts were not completed after periods of one year and two and a half years. The delays happened because Flint Neighborhood did not coordinate with the City to ensure there was agreement that work accomplished according to Flint Neighborhood's work specifications would resolve the code violations to the City's satisfaction.

For example, the City of Flint's October 2, 1992 code violation inspection for the property at 201 W. Hamilton stated the exterior surfaces of the house, front porch and the garage were weathered and had loose flaking paint. The inspection also showed the front driveway was in a state of disrepair and did not meet the City code. When Flint Neighborhood wrote the work specifications, the rehabilitation specialist did not include work to repair the driveway. The specialist also did not specifically address the flaking paint. The specifications only required the house to be painted and only specified routine surface preparation. The specifications also did not include the unattached garage. In its final inspection, the City cited that the house trim and garage needed to be scraped and painted and the driveway needed to be repaired. We could not interview any of the Rehabilitation Specialists who prepared the specifications for the contracts, since they were no longer employed due to a reduction in workforce.

Flint Neighborhood did not have any internal control procedures to ensure the City and it had an understanding before work began of violations that needed to be corrected. If the City reviewed Flint Neighborhood's work specifications before work began, the problems with delays could have been reduced or eliminated. The Director of the City's Building and Inspection Department said the City could review the specifications to assure the specifications address all the City's code violations. He said this process would take two to three business days.

The Interim Director said the City did not require non-profit agencies to submit the work specifications for approval before contract bids were sought and Flint Neighborhood did not have any internal procedures that required coordination with the City before work began.

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Auditee Comments

The complete text of the Interim Executive Director's comments on our draft finding follow and are also contained in Appendix B.

The agency concurs with the recommendations contained in the OIG's report. However, relative to Recommendation 1A, apparently the City at one time did review the specifications prior to the bids being let by Flint Neighborhood. Because the individual responsible for that particular duty was not familiar with the construction trades, the process was not successful.

I am concerned that by allowing the City to review our specifications prior to our going out for bids, the process may be further delayed.

During my tenure as consultant to the City, I discovered that although the City's Building Officials and Code Administrators (BOCA) Code is more restrictive than Section 8 Housing Quality Standards, the City inspectors continued to miss many Housing Quality Standards items that HUD would cite the City for later.

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OIG Evaluation of  
Auditee Comments

We recommended that the City review Flint Neighborhood's work specifications to assure the work requirements will result in satisfactory resolution of the City's code violations. Our recommendation did not address HUD's Housing Quality Standards, since the City's code is more restrictive. The Director of the City's Building and Inspection Department said the process will only take two to three business days. Compared to an average time of 222 days taken to complete rehabilitation work, two to three days is minor. The recommendation did not require the City inspectors to identify and write specifications for HUD's Housing Quality Standards violations. This is the responsibility of the Flint Neighborhood's Rehabilitation Specialists. Flint Neighborhood needs to coordinate with the Director of the City's Building and Inspection Department to ensure a review is conducted by someone familiar with construction trades.

Auditee Comments

While a consultant to the City, I expressed my concern over the extreme numbers of change orders written by Flint Neighborhood rehab staff. My opinion was that by missing items in the original write up, the completion of the rehab job was unnecessarily delayed. It is my opinion that it does not cost Flint Neighborhood and the property owners additional funds to complete the jobs. The additional funds simply become a part of the actual costs to fully rehabilitate the properties.

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OIG Evaluation of  
Auditee Comments

The original specifications if properly written should contain all the City code violations that would eliminate the need for many change orders. As a result, rehabilitation work would not be delayed unnecessarily and there should be no unplanned costs incurred after the work is scheduled to be completed. The processing of change orders and fragmented planning that occurs as a result is an additional cost, even though it may not be clearly determinable.

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Auditee Comments

The rehabilitation cases reviewed by OIG's personnel, where work was not completed in a timely manner, are all problem jobs, where other factors have played a significant part in delaying the completion of the work. As noted, the original Rehabilitation Specialists are no longer at the agency, so the current Rehabilitation Specialist has the difficult task of now trying to bring these cases to closure. With these cases, it was not simply a matter of the contractors failing to do their jobs in a timely matter. In many cases, the homeowners refused to cooperate with either Flint Neighborhood or the contractor.

In the case of 929 E. Bundy, the heating system sits on a slab beneath the house. When it rains, the vents fill up and throw water everywhere, causing a severe humidity problem in the house. Several recommendations have been made recently by the contractor to eliminate this problem, some extremely costly. The Rehabilitation Specialist is in the process of reviewing all of the options available to us. The property owner has not yet come up with her share of all of the costs.

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**OIG Evaluation of  
Auditee Comments**

As stated in the finding, we selected the cases randomly. Six of the eight cases that took an average of 222 days to complete were done when Flint Neighborhood had the Rehabilitation Specialists that were laid off. It is only the two uncompleted cases that the new Rehabilitation Specialist is having difficulty trying to close. We believe if the specifications were written properly and reviewed by the City, delays could be significantly reduced. We agree with the Interim Director that the property at 929 E. Bundy had unavoidable delays caused by a water problem that was not apparent when the City Building Department did its original inspection.

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**Auditee Comments**

We have discussed various ways of possibly penalizing contractors for not completing work on time, but have not implemented any procedures due to the limited number of contractors currently willing to work in the program. In January, all of the housing non-profits will be publishing a joint advertisement hopefully attracting new contractors to the area. If the solicitation is successful, we will be better able to institute stricter guidelines, which all of the non-profits will require their contractors to comply with.

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**OIG Evaluation of  
Auditee Comments**

We agree that Flint Neighborhood should not take actions that will discourage the limited number of contractors from participating in the program. However, Flint Neighborhood needs to develop reasonable parameters for completion of rehabilitation work and develop procedures and controls to encourage compliance.

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**Recommendations**

We recommend that the Director of Community Planning and Development, Michigan State Office, requires Flint Neighborhood Improvement and Preservation Project, Inc. to:

- 1A. Develop procedures and controls to assure that work specifications include all City code violations and submit the specifications to the City of Flint for review and approval to assure that no violations are missed prior to requesting contractor bids.

- 1B. Establish reasonable timeframes for completion of contract work, based on the necessity to perform "full-code" rehabilitation work. This timeframe should be incorporated into the standard contract and other contract terms be revised as necessary.
- 1C. Enforce controls to assure the contractors comply with contract terms. All justifications for non-compliance should be fully documented.

# Ineligible Payments Were Made For Sick Leave

Flint Neighborhood Improvement and Preservation Project, Inc. improperly paid a former Executive Director for sick leave hours after his contract was terminated. Contrary to HUD's requirements and the Director's contract, the Board of Directors approved the payments of sick leave. As a result, the Block Grant Program was charged \$2,669 for ineligible expenses.

## HUD's Requirements

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A states that for a cost to be allowable it must be reasonable. A cost is reasonable if, in its nature or amount, it does not exceed an amount that would be incurred by a prudent person under the circumstances.

## Flint Neighborhood's Requirements

Paragraph 8 of the Employment Agreement between Flint Neighborhood and the former Executive Director states that sick hours are not redeemable at contract termination. The contract's termination date was August 31, 1996.

## Ineligible Sick Leave Payments Were Made

Flint Neighborhood Improvement and Preservation Project, Inc. improperly paid \$2,669 for unused sick leave hours that were on the books when the former Executive Director's contract was terminated.

The former Executive Director was placed on a leave of absence by the Board of Directors on March 22, 1996 due to poor health. At that time, the former Director had 1,019 hours of unused sick leave. Flint Neighborhood paid the former Director sick leave each pay period until it was exhausted in September 1996. However, the former Director's employment contract was terminated on August 31, 1996 after which no sick leave should have been paid. Ninety-three hours of unused sick leave were recorded on the books at contract termination.

According to the Interim Executive Director and the Controller, the Board of Directors approved the payment of the 93 hours in unused sick leave at its August 22, 1996 Board Meeting.

The current Executive Director agreed that the former Director was not entitled to the payment for sick leave after

his contract expired. She said she was directed by the Board to pay the former Director as a sympathetic gesture due to his poor physical health.

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**Auditee Comments**

The complete text of the Interim Executive Director's comments on our draft finding follow and are also in Appendix B.

The former Executive Director's contract terminated, and was not renewed. The fact of nonrenewal did not preclude the agency from seeking to ensure the continuation of his disability payments, which had been denied by the insurance carrier and have not been reinstated for the hours in question. The payment of his accumulated sick leave was necessary to persuade the carrier to begin the disability payments.

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**OIG Evaluation of Auditee Comments**

The Director did not have documentation that showed the insurance carrier denied disability payments because there was a balance of sick leave hours after the former Director's contract expired. The denial of the disability payments was a condition that needed to be discussed with the insurance carrier. The inappropriate use of HUD's funds was not a proper solution.

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**Recommendation**

We recommend that the Director of Community Planning and Development, Michigan State Office, requires Flint Neighborhood Improvement and Preservation Project, Inc. to:

- 1A. Reimburse the City of Flint \$2,669 for the ineligible sick leave payments.



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# Internal Controls

In planning and performing our audit, we considered the internal controls of Flint Neighborhood Improvement and Preservation Project, Inc. related to the administration of its HUD funded rehabilitation programs, in order to determine our auditing procedures and not to provide assurance on internal controls. Internal controls consist of the plan of organization and methods and 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 are obtained, maintained, and fairly disclosed in reports.

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## Relevant Internal Controls

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

- Accounting for receipts and disbursements
  - Management philosophy and monitoring methods
  - Policies and procedures

It is a significant weakness if internal 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 are obtained, maintained, and fairly disclosed in reports.

## Significant Weaknesses

Based on our review, we believe that the following are significant weaknesses for this report:

- Management philosophy and monitoring methods. Flint Neighborhood did not ensure that rehabilitation work was completed timely (See Finding 1).

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# Follow Up On Prior Audits

This is the first Office of Inspector General audit of the Flint Neighborhood Improvement and Preservation Project, Inc. rehabilitation programs funded by the Community Development Block Grant, Home Investment Partnerships and Hope III Programs. The last Office of Inspector General report (Audit Report Number 93-CH-245-1017) addressed the Rental Rehabilitation Program and has no unresolved findings. None of the findings in that report relate to this audit. The last independent audit report was dated September 6, 1996. It also did not have any findings related to this report.

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# Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Cost Ineligible 1/</u>
1A	\$2,669

1/ Ineligible costs are costs charged to a HUD program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

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# Auditee Comments

FLINT NEIGHBORHOOD IMPROVEMENT AND PRESERVATION PROJECT INC.  
505 WEST COURT STREET  
FLINT, MICHIGAN 48503  
810/766-7212  
FAX: 810/766-7040

KATHY F. BAGLEY  
INTERIM EXECUTIVE DIRECTOR

FATHER JAMES BETTENDORF  
PRESIDENT

December 19, 1996

Mr. Muhammad M. Akhtar  
Senior Auditor  
Office of Inspector General  
U.S. Dept. of Housing and Urban Development  
477 Michigan Avenue - Room 1790  
Detroit, MI. 48226-2592

RE: Proposed Audit Findings

Dear Mr. Akhtar:

I am in receipt of your correspondence dated December 10th, relative to the above captioned subject.

Attached, please find this agency's comments in reference to the OIG's report.

Should you have any questions or concerns, please do not hesitate to contact me, at your convenience.

Sincerely,

Kathy F. Bagley  
Interim Executive Director

Attachments  
cc: Executive Committee

Funded by HUD/City of Flint

Finding #1 - Ineligible Payments Were Made for Sick Leave (Finding 2 in Final Report)

The former Executive Director's contract terminated, and was not renewed. The fact of nonrenewal did not preclude the agency from seeking to ensure the continuation of his disability payments, which had been denied by the insurance carrier and have not been reinstated for the hours in questions. The payment of his accumulated sick leave was necessary to persuade the carrier to begin the contracted for disability payments.

Finding #2 - Rehabilitation Work Was Not Completed Timely (Finding 1 in Final Report)

The agency concurs with the recommendations contained in the OIG's report. However, please note the following:

- (1) Relative to Item 2A, apparently the City at one time did review the specifications prior to the bids being let by Flint-NIPP. Because the individual responsible for that particular duty was not familiar with the construction trades, the process was not successful.
- (2) During my tenure as consultant to the City, I discovered that although the BOCA Code is more restrictive than Section 8 HQS, the City inspectors continued to miss many HQS items that HUD would cite the City for later.
- (3) I am concerned that by allowing the City to review our specifications prior to our going out for bids, the process may be further delayed.
- (4) While consultant to the City, I expressed my concern over the extreme numbers of change orders written by Flint-NIPP rehab staff. My opinion was that by missing items in the original write up, the completion of the rehab job was delayed unnecessarily. It is my opinion that it does not "cost Flint-NIPP and the property owners additional funds" to complete the jobs. The additional funds simply become a part of the "actual" costs to fully rehabilitate the properties.
- (5) The rehabilitation cases reviewed by OIG's personnel, where work was not completed in a timely manner, are all problem jobs, where other factors have played a significant part in delaying the completion of the work. As noted, the original rehabilitation specialists are no longer at the agency, so John Shaw has the difficult task of now trying to bring these cases to closure. With these cases, it was not simply a matter of the contractors failing to do their jobs in a timely matter. In many cases, the homeowners refused to cooperate with either Flint-NIPP or the contractor.

In the case of 929 E. Bundy, the heating system sits on a slab beneath the house. When it rains, the vents fill up and throw water everywhere, causing a severe humidity problem in the house. Several recommendations have been made recently by the contractor to eliminate this problem, some extremely costly. John is in the process of reviewing all of the options available to us. The property owner has not yet come up with her share of all of the costs.



- (6) We have discussed various ways of possibly penalizing contractors for not completing work on time, but have not implemented any procedures due to the limited number of contractors currently willing to work in the program.

In January, all of the housing non-profits will be publishing a joint advertisement hopefully attracting new contractors to the area. If the solicitation is successful, we will be better able to institute stricter guidelines, which all of the non-profits will require their contractors to comply with.

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# Distribution

Secretary's Representative, Midwest  
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Director, Community Planning and Development, Michigan State Office (2)  
State Coordinator, Michigan State Office (2)  
Assistant General Counsel for the Midwest  
Public Affairs Office, Midwest  
Director, Accounting Division, Midwest  
Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)  
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