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October 11, 1996

97-FW-249-1801

MEMORANDUM FOR: Gregory J. Hamilton
Director, Community Planning and
Development Division, 6HD

FROM: D. Michael Beard, District Inspector General for Audit, 6AGA

SUBJECT: Community Development Block Grant Program
Bossier City, Louisiana

We completed a survey of the Community Development Block Grant (Grant) activities administered by the Community Development Department of Bossier City, Louisiana. The survey was to determine if there were indicators of problems that would warrant an audit of the City's Grant Program. We primarily reviewed the City's Program for eligibility of activities and adequacy of supporting documentation for Grant expenditures. The City was using Grant funds for the following activities: (1) Housing Rehabilitation and Demolition; (2) Capital Improvements; (3) Emergency and Public Assistance; and (4) Economic Development. Our survey also included a review of the City's accounting for program income and use of funds for administrative costs.

Our interviews with your staff, City staff, and a review of records and documents did not reveal any major violations of HUD requirements. Although not considered sufficiently significant to warrant further audit work, we did identify some issues that the City should correct. We also believe the City should give consideration making a policy change on the filing of liens when the City uses Grant funds for demolition of substandard structures.

These issues and concerns were discussed with the City's Community Development Director and are shown on Attachment 1. The City's Community Development Director has taken or was in the process of taking corrective action on most of the problems. We suggest that you have your staff follow up with the City to ensure the corrective action is completed and provide any guidance the City may need.

Should you or your staff have any questions, please contact Darrel Vaught, Assistant Regional Inspector General for Audit.

Attachment 1 - Issues for Correction or Consideration
Attachment 2 - Distribution

OIG identified some issues of concern in the City's administration of the HUD Community Development Block Grant (Grant) funded activities, as follows:

1. City Needs to Monitor Program Performance and Subrecipient Expenditures.

Although OIG does not consider these problems serious enough to control resolution through HUD's formal audit report process, HUD's Louisiana State Office Community Planning and Development Division should follow up with the City to ensure corrective action for the following:

Subrecipients. Until December 1994, Louisiana Tech University, a subrecipient, provided a Business Incubator Development Program to City residents. The Program's goal was to assist low and moderate income individuals to develop and start new businesses. The HUD Louisiana State Office Community Planning and Development Division had previously cited the City for not adequately monitoring the Subrecipient's administration of the Program.[1] We reviewed the City's records for program results, monitoring, and proper support of costs charged. This review noted:

- Program Results. Although the subrecipient agreement contained specific performance measures, the records do not show that the City monitored program performance to determine if the subrecipient achieved the Program's goals. The City's records did contain information showing the number of students enrolled during each semester in a course on preparation of business plans. However, the records did not show the number of students who opened businesses, the number of jobs created, and whether or not the jobs went to low/moderate income individuals. In addition, the records did not show whether the University carried out other requirements of its agreement for the Program, as follows: (1) continued support and assistance for past course participants; (2) developing contacts as potential sources of financing for businesses; and (3) developing and distributing a quarterly newsletter to promote the Program and maintain contact and involvement with former participants. As a result, the City was not in a position to conclude whether the Program was successful and whether the City received any appreciable benefits for the Grant funds expended.

[1] Monitoring reports, dated April 26, 1991 and June 18, 1993. Requirements are contained in HUD Regulations 24 CFR Sections 85.22, 85.40, and 44.6.

- Unsupported Costs. The University charged and the City paid for costs not supported by adequate documentation. The University's Invoice number 2205-2209, dated March 10, 1995, claimed reimbursement of $7,670 for payroll, consulting, travel, telephone, and postage costs. However, this claim was not supported, as were previous claims, by time distribution records, vendor invoices, or other suitable documents to show the University incurred the costs.

- Annual Subrecipient Audits. The City's records did not contain audit reports for the University's fiscal years 1993 and 1994.

Economic Development Loans. The City needs to monitor economic development loan recipients to ensure jobs for low and moderate income persons were created. The City made two economic development loans to two businesses for the purpose of creating jobs for low to moderate income persons. The records did not contain any information to show the low and moderate income jobs were created. HUD Grant Regulations[2] require that economic development activities, to be eligible, benefit low and moderate income persons. Therefore, the City has no assurance that this national goal of the Grant Program was achieved.[3]

2. City Should Consider Changing its Demolition Policy Regarding Liens.

The City's uses Grant funds to demolish properties if the owner does not: (1) bring the property up to code or (2) have the property demolished. The City's policy, if the owner cannot be located, is to place a lien on the property for the cost of demolition. However, if the City locates the owner and gets voluntary agreement for the City to demolish the structure, the City does not place a lien on the property. The City's policy on placing liens is not based on the owner's ability to pay.

Although HUD Regulations do not prohibit this practice, the City could be criticized by the public for using federal Grant funds (public money) to demolish substandard structures of affluent property owners. Therefore, we believe the City should consider changing its policy to incorporate the filing of liens in all cases unless the property owner is of low to moderate income.[4]

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[2] Sections 570.200 and 570.208, Title 24 Code of Federal Regulations.

[3] Section 85.40, Title 24 Code of Federal Regulations, *Monitoring and reporting program performance.*

[4] HUD Regulations, 24 CFR 570.200(c), note that special assessments to recover capital costs of Grant funded or partially Grant funded public improvements, may not be made against persons with low to moderate income.

3. Problems Corrected by the City during the Review.

During the review, the following two issues were brought to the Community Development Director's attention:

Public Assistance. The City's Public Assistance activities were carried out by three other City offices. The Community Development Department controlled these activities through the use of Inter-Agency Agreements. The three City agencies were the Parks and Recreation Department, the Fire Department, and the City Marshall's Office. The Community Development Department had allowed two of the three agreements to lapse and the third was nearing expiration. The Director took action to renew the three agreements.

Program Income. Although the City properly accounted for its program income, the City was not considering the use of these funds for grant activities when drawing down Grant funds.[5] As of October 6, 1995, the City had $9,007 of program income generated from the payback of principal and interest from its economic development loans. The Community Development Department corrected the problem by using the program income to offset the Grant funds drawn down in November 1995.

[5] Title 24 Code of Federal Regulations, Sections 85.25(g), *Use of program income*, and 570.504, *Program Income*.

DISTRIBUTION

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