



Issue Date
August 19, 1999
Audit Case Number
99 SF-241-1003

TO: William Barth, Director, Community Planning and Development, 9DD

FROM: Glenn S. Warner, District Inspector General for Audit, 9AGA

SUBJECT: City of Lynwood
Community Development Block Grant (CDBG) And HOME Investment
Partnerships (HOME) Programs
Lynwood, California

At the request of your office, we completed a limited scope audit of the City of Lynwood's (Grantee) CDBG and HOME Programs. This report contains two findings.

We have provided a copy of this report to the Interim City Manager.

Within 60 days please furnish us, for each of the recommendations in this report, a status report on (1) corrective action taken, (2) the proposed corrective action and the date for its completion, or (3) why action is not needed. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Should you have any questions, please contact Ruben Velasco, Assistant District Inspector General for Audit, at (213) 894-8016.

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Executive Summary

At the request of HUD's Los Angeles Area Office's (LAAO), Office of Community Planning and Development (CPD), we completed a limited scope audit of the City of Lynwood's (Grantee) Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) Program operations. The objective of our audit was to determine the validity of allegations concerning: (1) the lack of jobs created or retained by a subgrantee, Lynwood Entrepreneur Development Academy (LEDA), (2) the lack of documentation to support future benefits to its residents from training that was provided to businesses located outside of its city limits by a subgrantee, Lynwood Business Institute (LBI), and (3) a conflict of interest between a Grantee elected official and a director of LEDA and LBI. We also assessed the Grantee's timely use of HOME funds to determine the reason for the large unexpended balance.

The Grantee could not demonstrate its compliance with CDBG requirements to support the number of jobs created and retained for low - and moderate-income persons by a subgrantee and document the future benefits accruing to its residents from training businesses located outside of its city limits. It also did not use its HOME funds timely since it only spent \$1.2 million (40%) of the \$3 million in HOME funds approved by HUD for Fiscal Years 1993 through 1998. We attribute these problems to the absence of adequate management controls and insufficient staff training.

We determined that the alleged conflict of interest between a Grantee elected official and a director of LEDA and LBI was not a violation of the conflict of interest prohibitions under Title 24 of the Code of Federal Regulations (CFR), Section 570.611(b), because the relationship did not fit the definition of "Family" under Title 24 of the CFR, Section 570.3.

The Grantee Was Unable To Demonstrate Its Compliance With CDBG Requirements

The Grantee was unable to demonstrate its compliance with CDBG requirements to support the number of jobs for low- and moderate-income persons created or retained by a subgrantee and to document future benefits accruing to its residents from training of businesses located outside of its city limits. These problems occurred because the Grantee did not: (1) establish needed policies and procedures for CDBG program and subrecipient monitoring requirements, (2) provide CDBG training to its staff responsible for the oversight and administration of CDBG funded activities, and (3) include task and record keeping requirements in its subgrantee agreements. As a result, the Grantee paid LEDA and LBI (subgrantees) a total of \$730,951 in CDBG funds from October 1994 through June 1998 for expenses that may not have been used to achieve its stated national objective or comply with CDBG funding restrictions.

The Grantee Did Not
Spend Its HOME Funds
Timely As Required

The Grantee did not use its HOME funds timely as required under the regulations. For Fiscal Years (FY) 1993 through 1998, the Grantee spent only \$1,268,769, of its total authorized HOME funds of \$3,175,000. This left a balance of \$1,906,231, (60%) of authorized HOME funds which remained unexpended at the end of FY 1998. The Grantee had made no expenditures from its HOME grant funds awarded for FYs 1996 through 1998. This occurred largely due to the Grantee's lack of adequate management controls and training provided to its staff who were responsible for the oversight and administration of its HOME program. As a result, the Grantee has not fulfilled its responsibility to expand the supply of housing available to low- and very low-income families in its jurisdiction and could lose unexpended HOME funds which are subject to HUD's recapture rules.

Auditee Comments

We discussed the findings with Grantee officials during the audit and at an August 12, 1999 exit conference. We provided the Grantee with a copy of the draft findings on May 24, 1999 and re-transmitted the findings on June 7, 1999 which included the audit recommendations. The Grantee responded to our findings on June 21, 1999 and July 16, 1999. The responses and our evaluation are discussed in the findings and the full text of the responses are included as Appendix B. In its June 21 response, the Grantee neither agreed nor disagreed with the findings but proposed that "special investigating counsel" would locate documents, conduct interviews of CDBG program and subgrantee staff and business owners, and assist in preparing a final response. We informed the Grantee that since the proposed actions seemed to be directly related to our recommendations, such actions that either have been or will be taken relating to corrective actions in response to the audit recommendations, would be considered by HUD action officials during the audit resolution process.


In its July 16, 1999 response, the Grantee generally agreed with the recommendations and submitted sets of policies and procedures for the general administration of its CDBG programs. These policies and procedures did not provide specific instructions for the Grantee's staff and subgrantees that, in our opinion, would help ensure the Grantee's compliance with all CDBG and HUD regulations. The

Summary

Grantee also submitted policies and procedures for its HOME funded housing programs that did not include a plan and timetable for committing and expending HOME funds.

At the August 12, 1999 exit conference, Grantee officials acknowledged that they did not have the required documentation supporting job creation and retention. They stated, however, that the City has developed new policies and procedures and will provide the necessary training for its staff to ensure that the problems reported in this report would not occur in the future.

With respect to the HOME program, the Grantee informed us that both the FY 1993 and 1994 HOME balances totaling \$111,036 have been spent as of June 30, 1999. In addition, the Grantee plans to work with its recently hired consultant to develop operating procedures and will include a plan and timetable for committing and spending HOME funds in accordance with the regulations.

**Recommendations**

We are recommending that HUD's LAAO, CPD, evaluate the adequacy of the Grantee's internal policies and procedures to ensure compliance with HUD's rules and regulations, assess and provide training needed by administrative staff and subrecipients, and require the Grantee to submit internal operating procedures to ensure that subgrantee agreements include applicable requirements and monitoring is conducted annually. We also recommended that the Grantee provide documentation evidencing the eligibility of \$730,951 paid to LEDA and LBI and repay from non-Federal funds any amount that the Grantee is unable to support. We are also recommending that LAAO, CPD recapture \$111,036 of the Grantee's HOME funds unless a waiver justifying a time extension to commit the funds is submitted and approved by HUD. Specific recommendations are included at the end of each finding.

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Abbreviations

CDBG	Community Development Block Grant
CHDO	Community Housing Development Organization
CPD	Office of Community Planning and Development
FY	Fiscal Year
HOME	HOME Investment Partnerships Program
LAAO	Los Angeles Area Office
LBI	Lynwood Business Institute
LEDA	Lynwood Entrepreneur Development Academy

Introduction

Background

The CDBG program was established by Title I of the Housing and Community Development Act of 1974 to assist entitlement grantees in the development of viable urban communities. Grantees use CDBG funds to develop decent housing, suitable living environment, and economic opportunity principally for low- and moderate-income persons. HUD provides grants to states and local governments as determined by a statutory formula.

HUD's CDBG regulations provide that funds must be used for eligible activities to further at least one of the following broad national objectives of the program to: (1) benefit low- and moderate-income persons, (2) aid in the prevention or elimination of slums and blight, and (3) meet community development needs having particular urgency.

Grantee's CDBG Program

The Grantee has participated in the CDBG program since 1985 and has generally provided CDBG funds to various city departments to carryout activities primarily for the benefit of low- and moderate-income persons. The Grantee also awarded CDBG funds each year to approximately 10 subgrantees that principally provided public services to the community.

In February 1993, the Grantee awarded CDBG funds to LEDA, a subgrantee, who operated a community based program which provided business training and incubator space for the benefit of low- and moderate-income residents of the City of Lynwood (Grantee). Prior to the establishment of LEDA, the Grantee operated the Entrepreneur Development Academy of California, which provided the same services.

Under the Grantee's Consolidated One Year Action Plans, the Grantee approved LEDA's funding to provide low- and moderate-income job benefits designed to create permanent jobs where at least 51 percent of the jobs created on a full time equivalent basis involve the employment of low- and moderate-income persons. The Grantee also approved LBI's funding to provide low- and moderate-income area benefits which are available to all residents of a particular area in which 51 percent of the residents are low- and moderate-income persons.

In December 1996, the Grantee terminated LEDA's operations and established LBI which continued providing only business training courses and seminars in conjunction with local universities and entrepreneurs. The Grantee terminated LBI's operation in March 1998 to use the remaining CDBG funds for public and street improvements. The Grantee awarded CDBG funds to LEDA and LBI during FYs 1993 through 1998 as follows:

FY	LEDA	LBI
1993	\$ 225,000	
1994	300,000	
1995	300,000	
1996	300,000	
1997	300,000	\$103,000 ¹
1998		178,000
Total	\$1,425,000	\$281,000

Although the Grantee awarded LEDA \$1,425,000 it paid LEDA only \$657,806 based on LEDA's total reimbursement requests submitted to the Grantee during the period from FY 1993 through FY 1997. Similarly, the Grantee paid only \$124,162 of the \$281,000 awarded for LBI related expenses during FY 1997 and FY 1998.

Grantee's HOME Program

The Grantee has also participated in the HOME program since 1992. The HOME program was established by the HOME Investment Partnerships Act, also known as Title II of the Cranston-Gonzalez National Affordable Housing Act.

The purpose of the HOME program is to expand the supply of decent, safe, sanitary, and affordable housing, primarily rental housing for low- and very low-income families through eligible forms of assistance, such as, loans, loan guarantees, equity investments, interest subsidies, and other assistance approved by HUD. The Grantee has provided eligible assistance primarily for the construction of housing to be purchased by low and very low-income families. However, the Grantee recently approved the use of \$1.9 million of its HOME funds for three new housing programs:

¹ According to a Grantee City council resolution, LEDA's funding was canceled in December 1996 with an unexpended fund balance of \$214,000. Of this amount, \$103,000 was awarded to LBI and \$111,000 was returned to the Grantee's CDBG unprogrammed balance as contingency funds.

Introduction

(1) First-Time Homebuying Program, (2) Purchase and Rehabilitation Program, and (3) Housing Rehabilitation Program.

Funding for CDBG and HOME Programs

The Grantee received CDBG and HOME grants for FYs 1993 through 1998 as follows:

CDBG		HOME	
FY 1993	\$ 1,308,012	FY 1993	\$ 750,000
FY 1994	1,603,468	FY 1994	376,000
FY 1995	1,745,486	FY 1995	444,000
FY 1996	2,168,116	FY 1996	481,000
FY 1997	2,109,718	FY 1997	568,000
FY 1998	2,074,474	FY 1998	556,000
Total	\$11,009,274	Total	\$3,175,000

The Grantee administers its CDBG program through its public works, finance, human resources, recreation/community services, and community development departments. The Grantee's HOME program is also administered through its community development department.

The use of all CDBG or HOME grant funds is approved by the Grantee's city council or the Lynwood Redevelopment Agency, respectively. The Lynwood Redevelopment Agency's board is comprised of the Grantee's five city council members.

Audit Objective

Our audit objective was to determine the validity of three allegations concerning (1) the lack of jobs created or retained by LEDA, (2) the lack of documentation to support the future benefits to the Grantee's residents from LBI trained businesses located outside of the city limits, and (3) an alleged conflict of interest between a Grantee elected official and a director of LEDA and LBI (subgrantees). We also assessed the Grantee's timely use of HOME funds to determine the reasons for the large unexpended balance.

Audit Scope and
Methodology

To accomplish our objectives, we performed the following:

- Interviewed HUD's LAAO, CPD staff and reviewed files pertaining to the Grantee.
- Interviewed Grantee officials and staff and reviewed records and files to determine the adequacy of the Grantee's management controls, compliance with applicable CDBG and HOME regulations, and training of its officials and staff on CDBG requirements.
- Interviewed Grantee officials and staff along with the former LEDA and LBI training director, reviewed documents and files of LEDA and LBI to determine whether the Grantee created or retained jobs for low- and moderate-income residents within its city limits and complied with CDBG funding restrictions.
- Interviewed business owners to verify the number of jobs created or retained.
- Obtained the opinion of OIG's Office of Legal Counsel concerning the existence of a conflict of interest violation of Title 24 of the CFR, Section 570.611(b).

Our audit generally covered the period October 1994 through June 1998. Where appropriate, we extended our review to cover other periods. We performed our audit field work from February through August 1998 and returned in October 1998 and February 1999 to obtain additional information.

We conducted the audit in accordance with generally accepted government auditing standards.

The Grantee Was Unable To Demonstrate Compliance With CDBG Requirements

The Grantee was unable to demonstrate its compliance with the CDBG requirements to:

- support the number of jobs for low- and moderate-income persons created or retained by a subgrantee, and
- document the future benefits accruing to its residents from training businesses located outside of its city limits.

These problems occurred because the Grantee did not:

- establish needed policies and procedures for CDBG program and subgrantee monitoring requirements,
- provide CDBG training to its staff responsible for the oversight and administration of CDBG funded activities, and
- include task and record keeping requirements in its subgrantee agreements.

As a result, the Grantee paid a total of \$730,951 in CDBG funds from October 1994 through June 1998 to subgrantees for expenses that may not have been used to achieve its stated national objective or comply with CDBG funding restrictions.

Regulatory Requirements

Federal Regulations (CFR), Section 570.208(a)(4), Job Creation or Retention Activities, specifies that a grantee is qualified to receive CDBG funding if it created or retained permanent jobs which benefited low- and moderate-income persons. The regulation also prescribes the documentation and record keeping requirements that the grantee and its subgrantee(s) must satisfy as a condition of CDBG funding. For job creation, the recipient must document that at least 51 percent of the jobs will be held by, or will be available to, low- and moderate-income persons. For job retention, the recipient must document that the jobs would be lost without CDBG funding as well as meeting other applicable conditions.

Title 24 of the CFR, Section 570.506, Records to be Maintained, identifies the minimum records that a grantee must maintain to demonstrate its compliance with the

CDBG national objectives to create or retain jobs for low-and moderate-income persons. Paragraph (b)(5) provides the tasks and the record keeping requirements for job creation by the grantee and/or a CDBG assisted business(es). Under that paragraph, the grantee is required to execute written agreements with CDBG assisted business(es) which specify the particular tasks and records to be performed and retained to demonstrate the grantee's compliance with the regulation. Paragraph (b)(6) similarly provides the tasks and record keeping requirements of a grantee and a CDBG assisted business(es) for job retention.

Grantee Was Unable To Demonstrate Its Compliance With CDBG Requirements

for Lynwood Entrepreneur Development Academy (LEDA) and Lynwood Business Institute (LBI) activities without demonstrating that it took the required actions to ensure compliance with CDBG requirements to: (1) support the number of jobs which benefited low- and moderate-income persons, and (2) document the future benefits accruing to its residents from training businesses located outside of the Grantee's geographical area.

Grantee Did Not Ensure That LEDA's Performance Was Adequate

at: (1) LEDA maintained the required documentation supporting the number of jobs created or retained, (2) monitoring reviews conducted by its staff corrected LEDA's poor management practices, and (3) LEDA received proper guidance on job creation and retention based only on current and pertinent regulations.

LEDA Did Not Maintain Required Supporting Documentation

A former LEDA's training director stated that LEDA created jobs but did not maintain supporting documentation because she believed that there was no requirement to do so. The Grantee's monitoring reviews confirmed the lack of documentation supporting the number of jobs created or retained, thus, it recommended that LEDA provide a listing of the number of jobs created and/or retained and cited LEDA for having participant files that were not complete and/or were outdated. Our inspection of LEDA's records and discussions with knowledgeable Grantee staff and former LEDA officials confirmed that neither the Grantee nor LEDA had substantive documentation supporting LEDA's creation or retention of jobs during the period that its activities were being funded by CDBG.

LEDA's former training director advised us, however, that the number of jobs created and/or retained by LEDA could be derived from a census of participant data that she compiled during the period from December 1991 through August 1997. We reviewed the census data which provided a historical listing of CDBG assisted businesses trained by LEDA, LBI, and their predecessor organization. The information shown on the listing was organized into nine training sessions and included the names of the businesses, city(ies) in which the businesses and their owners were located, and the number of jobs associated with the businesses. Because the "number of jobs" were not identified to individual names, we could not confirm through records the existence of the jobs which were purportedly created or retained. For example, the census did not provide a breakdown of the jobs held by or available to low- and moderate-income persons or identify the jobs that would be lost without CDBG funding. Therefore, we concluded that the census data did not constitute the job creation and retention documentation, as claimed by the former training director.

Inaccurate Number of Jobs Were Listed

Because the Grantee did not have the required documentation to support the jobs purportedly created or retained via LEDA and LBI activities, we contacted the business owners that were trained during the latest two training sessions provided by LEDA and LBI. These two sessions, attended by 34 business owners, were conducted by LEDA and LBI from March through August 1996 and from May through August 1997, respectively. We spoke with 15 business owners but were unable to reach the other 19 because they either did not return our telephone calls or the telephone numbers listed on the census were no longer valid.

Nine of the 15 owners told us that they did not create or retain any jobs even though the census identified that jobs were created or retained by these businesses. In one case, the owner said that his business did not create any jobs even though the census identified five jobs created. In another case, the business owner also told us that he did not create any jobs but the census showed that three jobs were created.

Three owners claimed that they had created a certain number of jobs but the number of jobs created did not agree with the number of jobs listed on the census. Two business owners indicated that the census information was correct. One owner declined to provide us with information concerning any jobs created or retained.

All but one of the 15 business owners contacted told us that LEDA or LBI never provided them with verbal or written instructions to verify the low - and moderate-income status of job applicants or existing employees as required under Title 24 of the CFR, Section 570.506(b). Also, 13 of these owners told us that they never reported any job creation or retention information to LEDA or LBI.

Based on the business owners' responses, we question the validity and accuracy of the census listing the number of jobs created or retained as the basis for the Grantee's compliance with the stated national objective.

Grantee Did Not Ensure That LEDA Addressed Poor Management Practices

Although the Grantee had conducted two prior monitoring reviews of LEDA's business incubator program in April 1995 and March 1996, neither review directly addressed or corrected LEDA's demonstrated lack of job creation or retention documentation and supporting records. Instead, the reviews generally found that LEDA's job creation and retention statistics were not available or that its participant files were outdated or incomplete.

Also, neither of the Grantee's monitoring reviews pointed out LEDA's non-compliance with the CDBG program's job creation and retention requirements as required by Title 24 of the CFR, Section 85.40(a). This regulation states that grantees are responsible for managing the day-to-day operations of grant supported activities and monitoring each program, function or activity to assure compliance with applicable Federal requirements and that performance goals are being achieved.

The Grantee's April 1995 monitoring review recommended that LEDA submit a semi-annual report to the Grantee which included "the number of jobs created and/or

retained”. In June 1995, LEDA’s executive director provided an incomplete reply which did not address job creation and retention at all. The Grantee’s March 1996 monitoring review of LEDA found that its incubator program participant files were incomplete and/or were outdated.

For both monitoring reviews, the Grantee issued a monitoring review letter including finding(s) and/or recommendation(s) to LEDA’s Executive Director. In both cases, the Grantee did not take any substantive follow-up action with LEDA to ensure that LEDA adequately responded to the recommendation or finding discussed above. In fact, LEDA provided no response to the Grantee’s March 1996 review.

Grantee Provided Outdated Guidance To LEDA

In May 1995, the LEDA director requested the Grantee to provide guidance on economic development. In response, the Grantee provided LEDA with a June 1987 HUD headquarters memorandum which included outdated guidance on job creation and retention. The Grantee did not provide LEDA with current and pertinent regulations because it did not maintain a current reference copy of Title 24 of the CFR, Part 570, which covers the basic elements and requirements of the CDBG program. The Grantee’s use of outdated information is consistent with its own general lack of current regulations and CDBG training offered or provided to its departmental and administrative staff.

The Grantee Did Not
Ensure That LBI
Complied With CDBG
Funding Restriction

For assisted businesses located outside of its geographical area, the Grantee did not determine and document, prior to CDBG funding, the benefits which would accrue to residents within the Grantee’s city limits as required by CDBG regulations. During the period from October 1996 through March 1998, the Grantee provided CDBG funds to LBI for training of 55 businesses located both inside and outside the Grantee’s geographical area. Thirty six or 65 percent of these businesses were located outside of the Grantee’s geographical area while 19 businesses or 35 percent were located within the Grantee’s city limits.

LEDA was accomplishing training of businesses as part of its agreement with the Grantee. However, due to staffing changes and the expiration of LEDA's property lease agreement which provided space to small businesses, the Grantee's city council canceled CDBG funding of LEDA's activities in December 1996. The Grantee then effectively replaced LEDA's business development activity with a newly formed LBI which operated in Grantee owned facilities. LBI continued to provide business training after LEDA's business incubator was dismantled. The Grantee retained the former LEDA business development director to serve as the LBI director even though LEDA had various unresolved findings and control problems. These problems similarly continued at LBI under the former LEDA director.

Funding Restrictions on
Location of Activities

Title 24 of the CFR, Section 570.309, Restriction on Location of Activities, states that CDBG funds may assist an activity outside the jurisdiction of the grantee only if the grantee determines that such an activity is necessary to further the purposes of Title I of the Housing and Community Development Act of 1974 as amended, and the recipient's community development objectives, and that reasonable benefits from the activity will accrue to residents within the jurisdiction of the grantee. The grantee shall document the basis for such determination prior to providing CDBG funds for the activity.

The following table provides a breakdown of the total number of LBI trainees located inside and outside of the Grantee's city limits and the allocated amount and corresponding percentage of CDBG funded expenditures made by the Grantee for those trainees located outside of its city limits.

LBI TRAINEES

Training Period	Total Trainees	Inside Trainees	Outside Trainees	Percent of Outside Trainees
Oct. 1996 - Aug. 1997	39	11	28	72
Dec. 1997 - March 1998	16	8	8	50
Total	55	19	36	65

Our review of the expenditures by LBI for training disclosed that LBI spent \$73,145 for training the 36 trainees that were located outside the city limits. Therefore, we are questioning that amount since the grantee could not show that those expenditures related to its community development objectives or that the funds were used for the benefit of the residents within its jurisdiction.

During LBI's existence from December 1996 through March 1998, the Grantee never monitored LBI's activities, contrary to Title 24 of the CFR, Section 85.40(a) which requires that grantees monitor grant supported activities to assure compliance with applicable Federal regulations and to assure that performance goals are being achieved.

Causes For The Grantee's Non-Compliance With CDBG Requirements

In our opinion, the Grantee's non-compliance with the CDBG regulations was due to its: (1) lack of policies and procedures on CDBG program and subrecipient monitoring requirements, (2) lack of CDBG training offered or provided to its departmental and administrative staff, and (3) deficient subgrantee agreements.

Lack Of Policies And Procedures

Our review disclosed the Grantee had not established any substantive policies and procedures or management controls which ensured:

- the subgrantees complied with all regulations and requirements governing their administrative, financial, and program operations;
- the subgrantees achieved their performance objectives; and,

- appropriate corrective actions were taken when performance problems arose.

Lack of Training Offered Or Provided

The majority of the Grantee's administrative and departmental staff responsible for overseeing or administering CDBG funded activities have never received training on compliance with CDBG and other HUD regulations. In fact, the Grantee's CDBG project manager was the only staff person who had received comprehensive CDBG training. The Grantee's officials have been reluctant to approve such training. Also, the Grantee does not provide ongoing training to its CDBG funded subgrantees.

Deficient Subgrantee Agreements

In addition to the lack of policies and procedures and CDBG training, the Grantee executed three subgrantee agreements for FYs 1995, 1996, and 1997 which did not specify the task and record keeping requirements of Title 24 of the CFR, Section 570.506(b). Under Section 570.506(b)(5), recipients are required to maintain, for each assisted business, a listing by job title, of the permanent jobs filled by or available to low- and moderate-income persons identifying those who were interviewed and who filled the created jobs. Section 570.506(b)(6) requires that grantees maintain, for each assisted business: (1) evidence that jobs would be lost in the absence of CDBG funding and (2) a listing of the permanent jobs retained identifying the low- and moderate-income persons who held the retained jobs at the time CDBG assistance was provided. Under these regulations, grantees are required to determine whether a person is low- or moderate-income by assessing the applicants family size and annual income or determining that the applicant resides in or the CDBG assisted business is located within a poverty impacted census tract.

Adverse Effect

Grantee Expended CDBG Funds That May Not Have Been Used To Achieve Its Stated National Objective Or Complying With Funding Restrictions

As a result of its lack of essential policies and procedures and training provided to its administrative and departmental staff, the Grantee spent CDBG funds totaling \$730,951 (LEDA - \$657,806 and LBI - \$73,145) without demonstrating its compliance with CDBG requirements to: (1) support the number of jobs for low- and moderate-income persons created or retained by a subgrantee and (2) document the future benefits accruing to the residents of the Grantee city from training businesses located outside of its city limits.

Auditee Comments

In the Grantee's June 21, 1999 response, it did not agree or disagree with the finding. Rather, it requested a 150 day extension to provide us with a more formal response not later than November 15, 1999, and retained "special investigating counsel" to locate and perform a review of documents, conduct interviews of individuals involved in its CDBG program, and assist the Grantee in preparing its final response to the findings and recommendations. In order for the "special investigating counsel" to accomplish this effort, the Grantee requested from us the names of its CDBG program and subgrantee staff and business owners to whom we spoke during the audit. The Grantee also provided its response to the audit recommendations on July 16, 1999. The Grantee generally agreed with our recommendations and provided a set of policies and procedures to satisfy the audit recommendations. Based on our review of the Grantee's submitted policies and procedures, we revised the audit recommendations.

At the exit conference, Grantee officials acknowledged that they did not have the required documentation to support LEDA's and LBI's claimed job creation and retention. They inquired whether a certification stating that jobs were created or retained would be sufficient to satisfy the audit recommendation concerning the questioned costs.

OIG Evaluation of
Auditee Comments

We provided the Grantee with the requested names of CDBG program and subgrantee staff and business owners. We believe, however, that the data and information concerning policies and procedures and documentation evidencing job creation/retention and benefits of training businesses from other cities that the “special investigating counsel” is now trying to ascertain is exactly what the Grantee was unable to provide for our review during the audit. In our opinion, having policies and procedures readily available provides continuity to efficient program operations even when staff turnover occurs. Similarly, having adequate documentation to support the eligibility of the use of CDBG funds is not only required by regulation but also a good and prudent business practice.

The policies and procedures submitted by the Grantee do not provide specific instructions to the Grantee’s staff and subgrantees delineating their compliance with CDBG and HUD regulations. In fact, a large portion of the submitted “policies and procedures” were mere copies of various HUD training materials that were meant to be guides for grantees in developing their own internal policies and procedures.

At the exit conference, we told the Grantee officials that HUD regulations were specific concerning the documentation needed to support job creation and retention claims. There is no reference to the acceptance of certifications as a substitute for having the required documentation.

Recommendations

We recommend you:

- 1A. Evaluate the adequacy of the Grantee’s policies and procedures to ensure that the Grantee and its subgrantees:
- Comply with all regulations and requirements governing their administrative, financial, and program operations.
 - Achieve their performance objectives; and
 - Take appropriate corrective actions when performance problems arise.

- 1B. Require the Grantee to assess the training needs of all administrative and departmental staff, and subrecipients, and develop a training program which will ensure that:
- Appropriate HUD program training is timely provided for each program year; and
 - Sufficient staff training records are maintained for HUD's review.
- 1C. Require the Grantee to submit for your approval its operating procedures which ensure that:
- All future subgrantee agreements include all applicable requirements needed to comply with the CDBG and related regulations; and
 - Monitoring of subgrantees is conducted annually.
- 1D. Require the Grantee to submit for your review and approval the required documentation establishing the eligibility of \$657,806 paid to LEDA for job creation and retention activities.
- 1E. Require the Grantee to submit for your review and approval the required documentation establishing the eligibility of \$73,145 paid for trainees that were located outside the Grantee's city limits.
- 1F. Require the Grantee to return to its Letter of Credit from non-Federal funds the amount that the Grantee is unable to support in Recommendations 1D and 1E.

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The Grantee Did Not Use Its HOME Funds Timely As Required

The Grantee did not use its HOME funds timely as required. For FYs 1993 through 1998, the Grantee spent only \$1,268,769 of its total authorized HOME funds of \$3,175,000. This left a balance of \$1,906,231 (60%) of its authorized HOME funds unexpended at the end of FY 1998. The Grantee had made no expenditures from its HOME grant funds awarded for Fys 1996 through 1998. This occurred because of the Grantee's: (1) lack of adequate management controls, and (2) insufficient training provided to its staff.

As a result, the Grantee has not fulfilled its responsibility to expand the supply of housing available to low- and very low-income families in its jurisdiction and could lose unexpended HOME funds that are subject to HUD's recapture rules.

HOME Regulations

92.504(e), states that the participating jurisdiction (Grantee) is responsible for managing the day-to-day operations of its HOME program, monitoring the performance of HOME funded entities, assuring compliance with program requirements, and taking appropriate action when performance problems arise.

Title 24 of the CFR, Section 92.500(d)(3), states that HUD will reduce or recapture the unexpended HOME funds remaining in the Grantee's U.S. trust account after the expiration of the five year period following HUD's execution of the HOME application award with the Grantee.

Grantee Had Not Spent 60 Percent Of Its Awarded HOME Funds

The Grantee had not spent any of its \$1,605,000 in HOME funds approved for FYs 1996 through 1998. Additionally, the Grantee did not fully spend its FYs 1993 through 1995 HOME awards which accounted for \$301,231² in unexpended funds. Therefore, the Grantee had not drawn down \$1,906,231 of the HOME funds it had been authorized since FY 1993.

For FYs 1993 through 1998, the LAAO awarded the Grantee six HOME grants totaling \$3,175,000. As of February 1999, the Grantee had only spent \$1,268,769 (40%) of the total funds awarded. A

² \$17,036+94,000+190,195=\$301,231.

breakdown of the HOME grants approved and spent for each FY are shown in the following table:

UNEXPENDED HOME FUNDS

FY	Grant Amount	Expended Funds	Unexpended Funds
1993	\$ 750,000	\$ 732,964	\$ 17,036
1994	376,000	282,000	94,000
1995	444,000	253,805	190,195
1996	481,000	0	481,000
1997	568,000	0	568,000
1998	556,000	0	556,000
Total	\$3,175,000	\$1,268,769	\$1,906,231
Percent	100%	40%	60%

Grantee Did Not Establish Adequate Management Controls

the management controls needed to ensure that the HOME funds identified in its consolidated action plans were spent within the required five year time frames.

The Grantee’s community development department did not have procedures to forecast and monitor the time periods in which HOME funds must be contracted out to subrecipients and community housing development organizations (CHDOs), and spent in accordance with the regulations. Without these procedures, the Grantee could not systematically commit and spend its available HOME funds awarded in each FY and avoid the loss of these funds under HUD’s recapture rules. The Grantee’s HOME coordinator advised that the community development department determines annually the amount of remaining HOME funds that require commitment and expenditure and provides the information to the appropriate Grantee officials. The coordinator stated, however, that his department does not systematically track HOME funds that have, or have not, been committed and spent. The finance director similarly advised that no special accounting procedures had been prepared for the Grantee’s HOME program.

As noted above, the Grantee did not establish written operating procedures for the accounting or program aspects of its HOME program. We believe that these are essential if the Grantee is to properly accomplish its responsibility to maintain effective control and accountability for all grants and subgrants under Title 24 of the CFR Section 85.20, Standards for Financial

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Management Systems. This section of the CFR was incorporated into the HOME program regulations at Title 24 of the CFR, Section 92.505(a). The Grantee's staff provided only a written description of the process the community development department used for project development and a description of its housing programs. Comments provided by the Grantee's staff indicated that they did not believe that formal written procedures were needed to ensure consistent application of program requirements by all current and future Grantee staff.

Grantee Did Not Establish Formal Written Procedures

Staff responsible for administering the HOME program have received training on HUD's requirements the Grantee did not develop formal written procedures needed to interpret the HUD regulations and carry out the HOME program in the context of the Grantee's city government.

Grantee's HOME Funds Are Subject To HUD Recapture Rules

Section 92.500(d)(3), HUD must recapture HOME funds which were not expended by the Grantee within a five year period after the grant execution and award date for FY 1993 and FY 1994. As of February 1999, \$111,036³ in HOME funds were subject to HUD's recapture rules.

In addition to making itself subject to HUD's recapture rules, the Grantee did not fulfill its responsibility to its low- and very low-income residents to expand the supply of decent, safe, sanitary, and affordable housing. The low- and very low- income families of the Grantee's city also did not benefit from the multiple forms of eligible housing assistance that the Grantee could have provided with its unexpended HOME funds, such as, loans, loan guarantees, equity investments, interest subsidies, down payment assistance, etc.

HOME Program Did Not Expand The Supply Of Decent, Safe, Sanitary, And Affordable Housing

 Auditee Comments

The Grantee did not agree or disagree with the finding. However, the Grantee stated that it has appropriated all of its unexpended funds from FYs 1993 through 1995 and anticipates spending the funds by the first quarter of FY 2000. The Grantee stated that it has retained housing consultants to assist them with overall administration, monitoring, and establishing time frames for the use of

³ \$17,036 (FY 93) + \$94,000 (FY 94) = \$111,036

HOME funds. In addition, the Grantee submitted policies and procedures for its single family and rental rehabilitation loan and grant programs, its first home buyers/down payment assistance program, and its single family purchase and rehabilitation program, as well as its procedure for accounting for draw downs of HOME funds.

At the exit conference, the Grantee said that as of June 30, 1999 it had spent the FY1993 and 1994 fund balance of \$111,036. Some of this had been earmarked for administrative costs. The Grantee said that it had now committed and spent a large portion of its FY1995 through 1998 Home grants. The Grantee officials also stated that they planned to work with recently hired consultants to develop operating procedures to include a plan and timetable for committing and expending HOME funds timely.

OIG Evaluation of
Auditee Comments

The Grantee did not provide any plans to obtain a waiver from HUD to use HOME funds that remained unspent beyond the required time frame. Therefore, to commit these funds after the commitment for eligibility has expired may itself be a violation of HUD regulations. The Grantee has developed policies and procedures for its various HOME programs. However, these policies and procedures do not include a plan and timetable for committing and expending HOME funds in accordance with the regulations. The Grantee's policies and procedures also do not include all of the aspects necessary for the efficient operation of its HOME program, such as requirements for selecting CHDOs, file contents and organization, etc.

We informed the Grantee that the \$111,036 balance represented the amount that the Grantee had not drawn down from its letter of credit; therefore, that amount was considered to be unused. During the audit resolution process, the Grantee should provide HUD with support for its expenditures.

Recommendations

We recommend you:

- 2A. Recapture \$17,036 of FY 1993 and \$94,000 of FY 1994 HOME funds that the Grantee did not spend or require the Grantee to secure from HUD a waiver

Comments

justifying the time extension or other action(s) needed to deviate from the requirements of Title 24 of the CFR, Section 92.500(d)(3).

- 2B. Require the Grantee to submit for your approval, operating procedures including a plan and timetable for committing and spending its HOME funds in accordance with the regulations.

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Management Controls

In planning and performing our audit, we considered the management controls of the Grantee in order to determine our auditing procedures, not to provide assurance on management controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing and controlling program operations. They include the systems for measuring, reporting and monitoring program performance.

Relevant Management Controls

Following management control systems were relevant to our audit objectives:

- Determining and documenting the number of jobs created or retained for low- and moderate-income persons.
- Determining and documenting the future benefits to the residents from the training of businesses located outside of the Grantee's geographical area.
- Providing adequate monitoring of subgrantees and Grantee departments.
- Tracking the timely use of HOME funds.
- Providing sufficient training to all staff.

We assessed all of the management controls identified above.

Significant Weaknesses

A significant weakness exists if management control does not give reasonable assurance that control objectives are met. Based on the results of our review, we believe the following were significant weaknesses:

- Inadequate controls to ensure that subgrantees complied with requirements for creating and retaining jobs for low- and moderate-income persons. (Finding 1)
- Lack of controls to ensure the future benefits accruing to the Grantee's low- and moderate-income residents before CDBG funds were used to train businesses outside of the Grantee's city limits. (Finding 1)

- Inadequate system to ensure regular monitoring of subrecipients and Grantee departments and timely corrective action to resolve noted deficiencies. (Finding 1)
- Lack of policies and procedures to ensure the timely commitment and expenditure of HOME funds, as required by HOME regulations. (Finding 2)
- Lack of an established training program to ensure that Grantee staff are sufficiently familiar with CDBG, HOME, and other HUD regulations. (Findings 1 and 2)

Follow Up On Prior Audits

This is the first OIG audit of the City of Lynwood's CDBG and HOME Programs.

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Schedule Of Questioned Costs

<u>Issue</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> <u>1/</u>	<u>Unsupported</u> <u>2/</u>
Job Creation and Retention	\$0	\$657,806
Funding Restriction	\$0	\$ 73,145
Total	\$0	\$730,951

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

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

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