

DURHAM



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**DEDICATED FUNDING SOURCE
PERFORMANCE AUDIT**

MARCH 2014

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CITY OF DURHAM
AUDIT SERVICES DEPARTMENT

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To: Audit Services Oversight Committee
From: Germaine Brewington, Director
Audit Services Department
Date: March 24, 2014
Re: Dedicated Funding Source Performance Audit
(March, 2014)

The Department of Audit Services completed the report on the Dedicated Funding Source Performance Audit dated March, 2014. The purpose of the audit was to determine the adequacy of controls to validate that Dedicated Funding Source Funds are provided to eligible recipients and used for their intended purposes.

This report presents the observations, results, and recommendations of the Dedicated Funding Source Performance Audit. City management concur with the recommendations made. Management's response to the recommendations is included with the attached report.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Department of Community Development in the completion of this audit.

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BACKGROUND INFORMATION

The Dedicated Housing Fund was established in FY 2012-FY 2013 to account for activities related to the dedicated one cent portion of the property tax that City Council members approved as part of the FY 2012-2013 budget. The overall purpose of the Dedicated Funding Source is to provide for strategic and responsible investments in the creation of affordable housing and neighborhood revitalization. With respect to affordable housing, Durham has two priorities- affordable rental housing for low wealth households and permanent supportive housing for formerly homeless persons with special needs. The Department of Community Development is charged with managing and spending the Dedicated Funding Source funds.

Uses of the Dedicated Housing Fund include:

Northeast Central Durham (NECD) and Southwest Central Durham (SWCD) Housing Development: Uses of the funding would include construction subsidies for both homeownership and rehabilitated rental properties and second mortgage loans or homebuyer incentives.

Rapid Re-Housing: Funding would be used for re-housing formerly homeless families.

Match/Gap Financing – Permanent Housing for Formerly Homeless Persons with Special Needs: Funding would be used as a gap or match financing in the creation of additional permanent supportive housing.

Elderly/Disabled Urgent Home Repairs: Funds will restore the Urgent Repair Program previously administered by the Department of Community Development.

Site Preparation and Infrastructure – Southside West: Funding will be used to complete the site preparation and infrastructure associated with the units in Southside West.



BACKGROUND INFORMATION

Targeted Acquisition – Southside: Funds would allow for the acquisition of properties and other costs associated with properties identified as being major detriments to homeownership marketing efforts.

Demolition in Southside: Funds would help provide the demolition of properties deemed not feasible for rehabilitation.

Southside Rental Rehab-Piedmont Project: Funds would be used to renovate units located along E. Piedmont Avenue.

For FY 2013 approximately \$2,374,654 of Dedicated Funding Source funds were available for use. Of these, approximately \$989,053 were expended as of January, 2014.

For FY 2014 approximately \$2,370,104 of Dedicated Funding Source funds were projected. Of these, approximately \$323,135 were expended as of January, 2014.



EXECUTIVE SUMMARY

Purpose

The purpose of the audit was to determine the adequacy of controls to validate that Dedicated Funding Source funds are provided to eligible recipients and used for their intended purposes.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The Dedicated Funding Source funds are managed adequately by the Department of Community Development. Adequate controls existed over the process of allocating the use of Dedicated Funding Source funds. Adequate controls existed over programs administered internally by the Department of Community Development staff. These included the First Time Home Buyers Program, Elderly Disabled/ Urgent Repairs Programs and the Neighborhood Revitalization Southside West (activities funded by Dedicated Funding Source funds only). The documentation maintained to support the eligibility requirements and approval process for the First Time Home Buyers Program was excellent. The Elderly Disabled/Urgent Repairs Program also had adequate controls to ensure funds were provided to eligible recipients. The Department of Community Development staff could strengthen the controls around the Dedicated Funding Source funds allocated to the Elderly Disabled/Urgent Repairs Program by ensuring that project managers complete a Disclosure of Conflict of Interest Form to mitigate the risk of fraud, waste, or abuse in the Program.

Adequate controls existed to monitor activities carried out by the sub-recipient Housing for New Hope for the Rapid Re-Housing



EXECUTIVE SUMMARY

Program. The Department could improve its processes of documenting the review performed of the eligibility requirement documentation provided by Housing for New Hope. In addition, developing written standard operating procedures for the Rapid Re-Housing as well as Elderly Disabled/Urgent Repairs Programs would help standardize the process in case of staff turnover.



OBJECTIVES, SCOPE AND METHODOLOGY

Objective

The objectives of the audit were to:

- Determine if adequate controls were in place to ensure Dedicated Funding Source funds were used for intended purposes;
- Determine if adequate controls existed over programs funded by the Dedicated Funding Source funds which were administered internally by the Department of Community Development; and
- Ensure that adequate controls existed to monitor activities carried out by sub-recipients.

Scope

The scope of the audit included examining all current practices as they relate to:

- Projects administered internally by the Department of Community Development;
- Activities carried out by sub-recipients.

Funds expended during FY 2013 and FY 2014 were examined. The scope of the audit was limited to activities performed using Dedicated Funding Source funds. The audit scope did not include administration of the neighborhood revitalization Southside project in its entirety.

Methodology

Audit Services Department staff performed the following procedures to accomplish the objectives of the audit:

1. Verified if adequate controls existed over approving the use of the funds and approving any changes to the approved budget;

OBJECTIVES, SCOPE AND METHODOLOGY

2. Obtained the approved listing of projects proposed for the Dedicated Funding Source for FY 2012-13 and FY 2013-14;
3. Analyzed expenditures to date and inquired about funds allocated to a project but not spent;
4. Obtained and reviewed written guidelines for eligible use of the Dedicated Funding Source;
5. Determined funds spent on programmatic versus administrative expenses;
6. Determined the projects administered internally by the Department of Community Development for the period of FY 2013 and FY 2014;
7. Selected the projects administered internally by the Department of Community Development (The First Time Homebuyers Program, Elderly/Disabled Urgent Home Repairs Program) and performed the following:
 - a. Documented how the programs were administered by the Department;
 - b. Interviewed project managers;
 - c. Reviewed the elements of beneficiary selection for appropriateness;
 - d. Selected a sample of beneficiaries and verified the supporting documentation maintained by the Department of Community Development staff to determine if the eligibility criteria were met;
 - e. Verified that payments to the beneficiary were for eligible expenditures;
 - f. Verified that adequate controls existed over payment of funds to the beneficiary or other third party vendors;
 - g. Reviewed monitoring reports used by the Department of Community Development staff;

OBJECTIVES, SCOPE AND METHODOLOGY

- h. Determined if the process was fair to beneficiaries;
- 8. For the Neighborhood Revitalization – Southside West expenditures, verified if adequate controls existed over payments processed;
- 9. Determined projects that sub-recipients administer using Dedicated Funding Source funds for FY 2013 and FY 2014;
- 10. Interviewed project managers;
- 11. Performed the following steps for the Rapid Rehousing Program administered by Housing for New Hope:
 - a. Obtained and reviewed the contract;
 - b. Reviewed the selection process for the contract;
 - c. Documented the process in place at the Department of Community Development to monitor the activities of the sub-recipient;
 - d. Verified the process;
 - e. Selected a sample of beneficiaries serviced by Housing for New Hope and verified that:
 - the eligibility criteria were met by the supporting documentation maintained;
 - f. Verified that adequate controls existed over payments made to Housing For New Hope;
 - g. Determined if the process was fair to beneficiaries;

During the audit, staff also maintained awareness to the potential existence of fraud.



Adequate controls existed over the process of allocating the use of Dedicated Funding Source funds.

The Department of Community Development management made recommendations to City Council members regarding the projects to consider based upon the available Dedicated Funding Source funds. The projects were based upon the initial submissions of grant requests from the community-at-large and the strategic initiatives of the City. The City notified the community of the availability of funding and requested proposals. City Council members approved the projects as part of the budget process. Any changes to the approved budget were submitted to City Council members for approval. Funds used for ongoing activities such as Urgent Repair and Rapid Re-housing “carried over” into the next fiscal year if they were not expended at the end of that fiscal year.

Forty-three percent (43%) of the Dedicated Funding Source funds allocated for FY 2013 were not expended as of Jan 31, 2014. Eighty-three percent (83%) of the Dedicated Funding Source Funds allocated for FY 2014 were not expended as of Jan 31, 2014.

The Department of Community Development staff have monitored the budget versus actual expenditures to date. Audit staff reviewed and analyzed the spread sheet, which was provided by the Department, of budgeted versus actual expenditures as of January 31, 2014. Audit staff verified the expenditures in MUNIS and determined that they were reported accurately in the spread sheet provided. Audit staff also reconciled the budgeted amounts reported in the spreadsheet to MUNIS. A few exceptions were noted. The exceptions were immaterial; however they warrant the attention of management. A management letter comment was issued to the Department of Community Development regarding the exceptions noted above. The table on page 13 shows the unexpended budget by project, as of January 31, 2014.

AUDIT RESULTS

Dedicated Funding Source Funds						
Expenditures as of Jan 31, 2014						
	FY 13	FY 13 Actuals (1/31/14)	Unexpended FY 13 Budget	FY 14	FY 14 Actuals (1/31/14)	Unexpended FY 14 Budget
Inventory Completion - SWCD and NECD						
Habitat for Humanity - HO Construction Cost Write-down	\$ 54,832	\$ -	\$ 54,832	\$ -	\$ -	\$ -
First Time Homesbuyers (HFH)	\$ 295,168	\$ 240,000	\$ 55,168	\$ 300,000	\$ 200,000	\$ 100,000
Affordable Rental Housing Vulnerable Populations (Mutual Manor)						
Mutual Manor Associates	\$ -	\$ -	\$ -	\$ 65,500	\$ 12,630	\$ 52,870
Elderly/Disabled Urgent Home Repairs						
	\$ 200,000	\$ 153,202	\$ 46,798	\$ 135,209	\$ 108,895	\$ 26,314
Rapid Re-Housing						
Housing for New Hope	\$ 200,000	\$ 127,718	\$ 72,282	\$ 200,000	\$ -	\$ 200,000
Urban Ministries of Durham Capital Improvements						
	\$ -	\$ -	\$ -	\$ 65,000	\$ -	\$ 65,000
Continuum of Care Admin						
	\$ -	\$ -	\$ -	\$ 74,000	\$ -	\$ 74,000
Southside West Site Prep/Infrastructure						
City of Durham - Site Plan Fees	\$ 7,724	\$ 7,724	\$ -	\$ -	\$ -	\$ -
DH Griffin	\$ 454,276	\$ -	\$ 454,276	\$ -	\$ -	\$ -
Southside West Rehab/Replacement Housing						
Not Under Contract	\$ -	\$ -	\$ -	\$ 253,484	\$ 1,610	\$ 251,874
Southside Rental Rehab - Piedmont Project						
Durham Community Land Trustees (Conditional)	\$ -	\$ -	\$ -	\$ 300,000	\$ -	\$ 300,000
Affordable Rental Housing Vulnerable Populations (Whitted School)						
Integral Developments LLC (Conditional)	\$ -	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Southside West Targeted Acquisition						
	\$ 450,000	\$ 375,755	\$ 74,245	\$ -	\$ -	\$ -
Southside West Demolition						
	\$ 84,654	\$ 84,654	\$ -	\$ -	\$ -	\$ -
Total	\$ 1,746,654	\$ 989,053	\$ 757,601	\$ 1,893,193	\$ 323,135	\$ 1,570,058
% unexpended			43%			83%

Discussions were held with management regarding funds that were available but not spent. The DH Griffin contract's unexpended funds account for 60% of the total unexpended funds for FY 2013. According to the management team for the Department of Community Development, the contract was funded with both CDBG and Dedicated Funding Source funds and the Department has drawn down CDBG funds first to meet the time sensitive deadlines of those federal funds.

The \$72,282 of unexpended Rapid Re-Housing funds account for approximately 10% of the total unexpended funds for FY 2013. According to the Director of Community Development, the contract was not executed until the end of February 2013. Also,

AUDIT RESULTS

according to the Director, Housing for New Hope has advised the staff that reimbursement for the remaining funds on the FY 2013 contract will be requested soon. Since Housing for New Hope has not submitted its final invoice(s), those funds are not reflected as expended in the City's accounts because the payment has not been processed.

Adequate controls existed over programs administered internally by the Department of Community Development. The area to strengthen controls was identified.

The programs administered in house by the Department of Community Development staff include:

First Time Home Buyers Program

A total of approximately \$380,000 of the FY 2013 and FY 2014 Dedicated Funding Source funds had been expended as of November 30, 2013. The beneficiaries were selected on a first come first serve basis. The Community Development staff used the services of the Sun Trust Bank to help review the applications. The Sun Trust Bank underwriters reviewed the applications and made recommendations to the Department of Community Development staff regarding the funding of the applications. The Department of Community Development staff reviewed the information provided by the Sun Trust Bank and verified that the income eligibility requirements were met before final approval of an application. Audit staff verified the approval process for 15 applications and determined that adequate supporting documentation existed to support the approval of an application. No exceptions were noted.

Elderly Disabled/Urgent Home Repairs Program

A total of approximately \$ 146,015 of the FY 2013 and FY 2014 Dedicated Funding Source funds were expended to assist 27 homeowners, as of November 30, 2013. Either citizens contacted the Department of Community Development staff for assistance or an agency referred the citizens to the Department of Community Development staff. Applications are processed on a first come first serve basis. Once a request for assistance was received, the Department of Community Development staff inspected the property to determine the scope of work needed and also verified that income eligibility criteria and other program eligibility requirements were met before bidding the project out to contractors. Audit services staff verified the approval process for 7 of the 27 homeowners served. No exceptions were noted. An adequate process existed over the administering of the Elderly Disabled/Urgent Home Repairs program.

Opportunity for improvement was noted in one area. The Department of Community Development did not require any of its staff (Project Managers) to complete a conflict of interest form. In order to maintain the appearance of fairness in processing applications, sound business practice would suggest that staff complete a "Disclosure of Conflict of Interest Statement" for each application which is processed and document that in the program files. Risk of fraud exists as the project managers control the beneficiary selection process. Having employees fill out a conflict of interest form would help mitigate part of the risk. Written procedures of how the project is administered also did not exist. Establishing written procedures would provide guidance to staff on how to operate in the event of turnover.

Neighborhood Revitalization – Southside West

Audit staff examined the activities for Neighborhood Revitalization-Southside West which were paid for by Dedicated Funding Source funds. These included targeted acquisition-Southside West expenditures of approximately \$351,649 and demolition expenditures of approximately \$84,654 for FY 2013.

AUDIT RESULTS

Audit staff reviewed the invoices and supporting documentation to verify proper approval for the expenditures. No exceptions were noted. The targeted acquisitions were consistent with the Southside Revitalization Master Construction Plan. There was adequate oversight over the demolition process.

The scope of the audit was limited to activities performed using Dedicated Funding Source funds. The audit scope did not include the administering of the Neighborhood Revitalization Southside West project in its entirety.

Adequate controls existed to monitor activities carried out by the sub-recipient. An area for improvement was identified.

The Rapid Re-Housing Program is administered by Housing for New Hope. The Emergency Solutions Grant was blended with Dedicated Funding Source funds for rapid re-housing and homelessness prevention. Housing for New Hope was to provide rapid re-housing activities (direct assistance in the form of rental and utility assistance) in the City of Durham. According to the contract for rapid re-housing services, Housing for New Hope was required to:

- Submit monthly progress reports/invoice reimbursement requests which reflect the prior months reported activity;
- Actively participate and enter all required client data into the Homeless Management Information System or Carolina Homeless Information Network on a monthly basis;
- Provide a monthly beneficiary report that provides the Grantees with the number of and demographic information about all beneficiaries/participants;
- Provide documentation to support income and identity verification of recipients; and
- Provide documentation of financial assistance provided.

AUDIT RESULTS

The Department of Community Development staff monitored and reviewed each invoice on a monthly basis. For all the payments processed for FY 2013, audit staff verified that the documentation to support financial assistance provided to recipients existed. Audit staff also verified that documentation to support income and identity verification of recipients was on file for the recipients listed in the invoices provided. No exceptions were noted.

In addition, Audit staff verified that the income eligibility criteria were met for 11 households served as a part of the Rapid Re-housing Program. No exceptions were noted.

The Department of Community Development staff can enhance their controls by establishing and maintaining an internal checklist documenting the review performed by the Department of Community Development project managers. A formal process to record the review performed, was not in place. Given the recent staff turnover, having a standard checklist/reporting mechanism to record the validation/review of information provided by the sub-recipient would help new staff transition into their new position responsibilities. The Department of Community Development staff used the contract with Housing for New Hope as a guide to assist in reviewing documentation submitted by Housing for New Hope. Best practices suggest that written standard operating procedures should be developed to provide guidance to staff in carrying out their work activities. Establishing written procedures would provide guidance to staff in the event of turnover.

Conclusion

The Dedicated Funding Source funds are managed adequately by the Department of Community Development. Adequate controls existed over the process of allocating the use of Dedicated Funding Source Funds. Satisfactory controls existed over programs administered internally by the Department of Community Development staff. These included the First Time Home Buyers Program, Elderly Disabled/ Urgent Repairs Programs and the Neighborhood Revitalization Southside West (activities funded by Dedicated Funding Source Funds only). The documentation maintained to support the eligibility requirements and approval process for the First Time Home Buyers Program was excellent. The Elderly Disabled/Urgent Repairs program also had adequate controls to ensure funds were provided to eligible recipients. The Department of Community Development staff could strengthen its controls by ensuring that project managers complete a Disclosure of Conflict of Interest form to mitigate the risk of fraud, waste, or abuse.

Adequate controls existed to monitor activities carried out by the sub-recipient Housing for New Hope for the Rapid Re-Housing Program. The Department could improve its processes of documenting the review performed of the eligibility requirement documentation provided by Housing for New Hope. In addition, developing written standard operating procedures for the Rapid Re-Housing as well as Elderly Disabled/Urgent Repairs Programs would help standardize the process in case of staff turnover.

RECOMMENDATIONS

Recommendation 1

The Department of Community Development project managers involved in administering programs in house must complete a “Disclosure of Conflict Statement” for each application which is processed; and document that in the program files.

Recommendation 2

The Department of Community Development staff should develop an internal checklist or other reporting mechanism to record validation/review of information provided to support the eligibility/contract requirements for the monitoring of the Rapid Re- Housing Program, provided by the sub-recipient.

Recommendation 3

The Department of Community Development staff should develop written standard operating procedures for the Elderly Disabled /Urgent Home Repairs Program and the Rapid Re-Housing Program.

MANAGEMENT'S RESPONSE

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Memo to: Germaine F. Brewington, Director
Audit Services
From: Reginald J. Johnson, Director
Community Development
Date: March 18, 2014
Subject: Management's Response
Dedicated Funding Source Performance Audit
(March, 2014)

The following is the management's response to the Dedicated Funding Source Performance Audit dated March 2014.

Recommendation 1

The Department of Community Development project managers involved in administering programs in house must complete a "Disclosure of Conflict Statement" for each application which is processed; and document that in the program files.

Management's Response:

We concur. Management is in full agreement with the recommendation.

Position Responsible for Implementation: Assistant Director, Production

Target Implementation Date: July 2014



Dedicated Funding Source
Performance Audit
March 2014

MANAGEMENT'S RESPONSE

Recommendation 2

The Department of Community Development staff should develop an internal checklist or other reporting mechanism to record validation /review of information provided to support the eligibility/contract requirements for the monitoring of the Rapid Re- Housing Program, provided by the sub-recipient.

Management's Response:

We concur. Management is in full agreement with the recommendation.

Position Responsible for Implementation: Project Manager II, Homeless Services

Target Implementation Date: May 2014

Recommendation 3

The Department of Community Development staff should develop written standard operating procedures for the Elderly Disabled/Urgent Home Repairs Program and the Rapid Re-Housing Program.

Management's Response:

We concur. Management is in full agreement with the recommendation.

Position Responsible for Implementation: Assistant Director, Production

Target Implementation Date: July 2014