

## AUDIT REPORT

CITY AUDITOR

**Report Date: August 2, 2017**  
**Department: Community Services**  
**Subject: Contract Monitoring – CDBG - WMCDC**  
**Lead Auditor: Karen Newman**

### **OBJECTIVE**

This audit was conducted to determine whether contract monitoring processes are adequate to effectively ensure vendors comply with contract terms, the City receives what it pays for, and contract-related risks are appropriately mitigated.

### **SCOPE & METHODOLOGY**

To meet our objective, we interviewed staff members; reviewed contract requirements, reimbursements, and performance documentation; and performed other tests and procedures as necessary. Contracts with West Mesa Community Development Corporation (WMCDC) for the 2016 and 2017 fiscal years were selected for testing.

### **BACKGROUND**

The Housing & Community Development Division is responsible for monitoring dozens of contracts, the majority of which are funded through grants from the U.S. Department of Housing and Urban Development (HUD). In recent years, the City has been allocated more than \$5M per year in HUD funding. A substantial amount of this funding consists of Community Development Block Grant (CDBG) funding passed through to various nonprofit entities, via contracts for eligible programs. Due to the complexity of program and reporting requirements inherent in HUD-funded contracts, it is critical that City staff diligently monitor compliance with all contract terms, as well as the underlying regulations, as failure to do so could result in significant losses of this much-needed funding. Regulations applicable to CDBG programs are set forth in Title 24 CFR, Part 570; and regulations applicable to the *monitoring* of these programs are set forth in Title 2 CFR, Part 200.

During fiscal years 2016 and 2017, the City had two contracts with WMCDC. The larger of the two contracts was a CDBG-funded economic development contract for \$90,000 per year. The purpose of this contract was to *"provide technical assistance to Small Businesses in the West Mesa area in support of job creation for Low to Moderate Income (LMI) persons"*. Deliverables included providing business classes, coaching, information events, networking opportunities, marketing guidance, and assistance with site location, resulting in the creation of a minimum of 3 new LMI jobs for each program year.

The smaller WMCDC contract was a city-funded Neighborhood Outreach contract for \$10,000 per year. The purpose of this contract was to *"offer specialized training for neighborhood*

*leaders and residents to help them address issues related to quality of life and sustainability of area neighborhoods and learn effective communication tools for neighborhoods.”* Deliverables included development and presentation of two renter education program events, a neighborhood forum, and an HOA academy. Although this contract was not federally funded, monitoring was necessary to ensure deliverables and reporting requirements were met prior to payment.

## **CONCLUSION**

In our opinion, the Community Services Department’s contract monitoring processes need improvement to reduce the risk of payments being issued to subrecipients and contractors that have not complied with applicable regulations and/or contract terms. Our observations and recommendations are briefly summarized below. For additional details and responses from management, please see the attached Issue and Action Plans (IAPs).

## **SUMMARY OF OBSERVATIONS & RECOMMENDATIONS**

### **ISSUE #1**

**Observations:** The Claim Reimbursement Monitoring process was not effective in detecting and/or addressing compliance deficiencies *prior* to payment, as evidenced by significant deficiencies identified during an onsite monitoring conducted by HCD staff after the close of the program year.

### **Recommendations:**

- 1-1. HUD monitoring tools and other technical resources should be used to develop program-specific written procedures for the Claims Reimbursement Monitoring process, to ensure that critical requirements are incorporated.
- 1-2. Attestations of compliance, such as narrative reports or forms completed by subrecipients, should not be relied on as evidence of compliance. Subrecipients should be required to submit documentary evidence of compliance on a regular basis.
- 1-3. Staff should be trained to critically evaluate documentation submitted by subrecipients, to ensure deficiencies are recognized, documented, and addressed as early as possible.
- 1-4. Staff should be required to acquire and maintain a strong working knowledge of all regulations and terms applicable to the specific contracts and programs they are responsible for monitoring.
- 1-5. Staffing levels and assignments should be reviewed and modified as necessary to ensure effective oversight of all subrecipients; and these efforts should be prioritized based on assessed risk, in accordance with HUD guidance.
- 1-6. Written procedures should be developed for tracking and documenting the resolution of findings from onsite (and other) monitorings. These procedures should include a

formal process for managing subrecipients that fail to resolve findings in a timely manner.

**ISSUE #2**

**Observation:** Neighborhood Outreach staff issued payments to a contractor without verifying that all contractual requirements were met.

**Recommendation:**

- 2-1. City staff responsible for contract monitoring should maintain a detailed working knowledge of all contract requirements; and should ensure all requirements are met before the vendor is paid, regardless of the contract funding source or dollar amount.

## Issue and Action Plan

### **Issue #1: Claim Reimbursement Monitoring Process Needs Improvement**

**Observations:** The Claim Reimbursement Monitoring process, which is used to evaluate individual reimbursement requests throughout the year, was not effective in detecting and/or addressing compliance deficiencies *prior* to payment. In May, 2017, HCD staff conducted an onsite monitoring of the FY2016 Economic Development program administered by West Mesa Community Development Corporation (WMCDC) and determined that WMCDC had not complied with several federal regulations applicable to the FY2016 agreement.

**Criteria:** US Department of Housing and Urban Development Office of Inspector General (HUD OIG) guidance states: *"To ensure that Federal funds awarded achieve their intended purposes, it is important for grantees to competently oversee the process from the award stage through closeout. Establishing comprehensive policies and procedures that incorporate the provisions of 2 CFR Part 200 as well as program-specific requirements is one of the keys to that oversight process. The second key is a strong and effective monitoring method that checks for compliance, rapidly addresses performance shortcomings, and provides a basis for compliance actions when warranted."*<sup>1</sup>

#### **US Code of Federal Regulations (CFR) Title 2, Part 200:**

*§200.331: Requirements for pass-through entities.*

*"All pass-through entities must: ...*

*(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:*

*(1) Reviewing financial and performance reports required by the pass-through entity.*

*(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means."*

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<sup>1</sup> *Subrecipient Oversight and Monitoring—A Roadmap for Improved Results*, HUD OIG Integrity Bulletin, Summer 2016

**Comments:**

The Claims Reimbursement Monitoring process is used to evaluate compliance prior to payment, by reviewing reports and other documents submitted by subrecipients. If compliance issues are not identified and addressed during the Claims Reimbursement Monitoring process, they are likely to remain undetected until the next onsite monitoring, which may occur after payments are made.

We found that HCD staff followed the established process for reviewing reimbursement claims, including verifying that all required documentation was submitted. However, the documentation required was not sufficient to provide reasonable assurance of compliance with program rules and regulations. Furthermore, the review process did not require staff to critically evaluate the information provided in the submitted documents.

**Recommendations:**

Claims Reimbursement Monitoring processes should be improved to more effectively and efficiently verify compliance with contract terms and federal regulations prior to payment, and to ensure deficiencies are addressed in a timely manner. To that end, we recommend the following:

- 1-1. HUD monitoring tools and other technical resources should be used to develop program-specific written procedures for the Claims Reimbursement Monitoring process, to ensure that critical requirements are incorporated.
- 1-2. Attestations of compliance, such as narrative reports or forms completed by subrecipients, should not be relied on as evidence of compliance. Subrecipients should be required to submit documentary evidence of compliance on a regular basis.
- 1-3. Staff should be trained to critically evaluate documentation submitted by subrecipients, to ensure deficiencies are recognized, documented, and addressed as early as possible.
- 1-4. Staff should be required to acquire and maintain a strong working knowledge of all regulations and terms applicable to the specific contracts and programs they are responsible for monitoring.
- 1-5. Staffing levels and assignments should be reviewed and modified as necessary to ensure effective oversight of all subrecipients; and these efforts should be prioritized based on assessed risk, in accordance with HUD guidance.
- 1-6. Written procedures should be developed for tracking and documenting the resolution of findings from onsite (and other) monitorings. These procedures should include a formal process

for managing subrecipients that fail to resolve findings in a timely manner.

**Management  
Response:**

**Action Plan #1-1:** The Department currently has a CDBG Policies and Procedures Manual. Staff will review and update policies as needed utilizing HUD notices and guidance. Staff will review and determine if monitoring tools should be revised. The procedures will continue to cover both program-specific and contract-specific as required for Claims Reimbursement Monitoring process.

**Individual or Position Responsible:** Dennis Newburn

**Estimated Completion Date:** October 31, 2017

**Action Plan #1-2:** Staff will review CDBG Policies and Procedures Manual and, as needed, and will outline documentary evidence items that comply with HUD requirements for demonstrating program compliance. Also, documentary evidence items will be outlined in each Contract and stated as required with each Claims Reimbursement Submittal.

**Individual or Position Responsible:** Dennis Newburn

**Estimated Completion Date:** October 31, 2017

**Action Plan #1-3:** Staff will complete an internal training in both intermediate and advanced courses in CDBG program administration, labor relations, development finance and 2 CFR 200 with particular emphasis on application of the rules and regulations including how to recognize, document, and address deficiencies.

**Individual or Position Responsible:** Dennis Newburn

**Estimated Completion Date:** December 31, 2017

**Action Plan #1-4:** The Community Development team will meet periodically, not less than quarterly to ensure staff have the working knowledge needed for oversight and programs staff are responsible for monitoring. Each employee will have identified training needed for that rating period in the individual's performance evaluation.

**Individual or Position Responsible:** Ray Thimesch, Dennis Newburn, and Ra'Chel'Ni Mar'Na

**Estimated Completion Date:** September 1, 2017

**Action Plan #1-5:** Community Services Director and Housing and Community Development Director will look at the existing resources and staffing in order to maximize and improve workloads and appropriate assignments for each program with considerations for staff strengths and abilities.

**Individual or Position Responsible:** Ruth Giese and Elizabeth Morales

**Estimated Completion Date:** September 1, 2017

**Action Plan #1-6:** Staff will review and update procedures in the CDBG Policies and Procedures Manual on tracking and documenting the resolution of findings as a result of a program and/or financial monitoring. The procedures will also outline progressive, solution-oriented steps for managing subrecipients that fail to resolve the findings in a timely manner.

**Individual or Position Responsible:** Dennis Newburn

**Estimated Completion Date:** October 31, 2017

## Issue and Action Plan

### **Issue #2: Vendor was paid, but did not meet all contractual requirements.**

**Observation:** For the Neighborhood Outreach (locally funded) contract, not all reporting requirements were met prior to issuing payment for services.

**Criteria:** The FY16/17 Neighborhood Outreach contract with WMCDC included the following reporting requirements:

*"A. Report. ... Contractor must submit complete reports in order to receive payment for services; the City will not pay Contractor for deliverables until the report related to those deliverables is complete and submitted to the City." ...*

*"C. Report Contents. Each report submitted by the Contractor will contain all of the following information:*

- 1. Number of attendees;*
- 2. A copy of all sign-in sheets;*
- 3. Type of training conducted;*
- 4. Evaluation for each event results*
- 5. Findings by facilitator of what residents/participants have learned or what mentorship was conducted; and*
- 6. Recommendations of what additional training and/or mentorship may be needed in the future."*

**Comments:** Requirements 4, 5, and 6 above were not met prior to payment to WMCDC for the Renter Education Program/Expo event that occurred in December 2016. These reporting requirements would have provided the City with information needed to evaluate the vendor's performance and determine whether the contracted services were useful in meeting the underlying program objectives. The contract monitor reported that she was not aware of these requirements; therefore, she did not require the vendor to submit this information prior to payment.

**Recommendation:** 2-1. City staff responsible for contract monitoring should maintain a detailed working knowledge of all contract requirements; and should ensure all requirements are met before the vendor is paid, regardless of the contract funding source or dollar amount.

**Management Response:** **Action Plan #2-1:** Ruth Giese is the individual responsible to monitor the Neighborhood Outreach contract for the remainder of its term. Ms.

Giese will maintain a detailed working knowledge of all contract requirements to ensure all requirements are met before the vendor is paid.

**Individual or Position Responsible:** Ruth Giese, Community Services Director

**Estimated Completion Date:** 8/30/2017