



City of Moreno Valley, CA

Community Development Block Grant Program

**Office of Audit, Region 9
Los Angeles, CA**

**Audit Report Number: 2018-LA-1004
April 27, 2018**





To: Chin Woo Choi, Acting Director/Program Manager, Los Angeles Office of Community Planning and Development, 9DD

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: The City of Moreno Valley, CA, Did Not Administer Its Code Enforcement Program in Accordance with HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Moreno Valley's Community Development Block Grant program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



Audit Report Number: 2018-LA-1004

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The City of Moreno Valley, CA, Did Not Administer Its Code Enforcement Program in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the City of Moreno Valley's Community Development Block Grant (CDBG) program, based on a referral from the Office of the Inspector General's Los Angeles Office of Investigation, identifying the concerns of the Los Angeles Office of Community Planning and Development that the City did not properly charge salaries to the CDBG code enforcement program. The objective of our audit was to determine whether the City correctly administered its code enforcement program.

What We Found

The City did not administer its code enforcement program in accordance with U.S. Department of Housing and Urban Development (HUD) requirements. Specifically, it did not (1) have a sufficient definition of deterioration or a written strategy describing how the program would be used to arrest the decline in CDBG-eligible target areas or (2) maintain adequate support for the eligibility of code enforcement payroll costs. This condition occurred because the City did not have adequate written procedures or controls to ensure that it met HUD requirements and City staff was not sufficiently knowledgeable of the program requirements. As a result, the City could not support \$797,222 in code enforcement salary expenditures.

What We Recommend

We recommend that the Acting Director of HUD's Los Angeles Office of Community Planning and Development require the City to (1) support charges made to the code enforcement program or repay the program \$797,222 from non-Federal funds, (2) develop and implement written policies to define deteriorated areas and establish a written plan of how the program would be used to arrest the decline in CDBG-eligible target areas, (3) develop and implement written controls to allocate code enforcement officers' costs among different CDBG activities and other funding sources and to properly record work hours for inspection activities, and (4) provide training on HUD requirements to code enforcement staff.

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Background and Objective

The City of Moreno Valley, CA, receives Community Development Block Grant (CDBG) funds from the U.S. Department of Housing and Urban Development's (HUD) entitlement program. The CDBG program provides annual grants to entitled cities and counties to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons. To be eligible for funding, program-funded projects must satisfy one of three HUD national program objectives required in 24 CFR (Code of Federal Regulations) 570.208 to provide benefit to low- and moderate-income persons, prevent or eliminate slums or blight, or meet other urgent community development needs due to disasters or other emergencies.

HUD's Los Angeles Office of Community Planning and Development awarded the City \$5.9 million for program years 2014 to 2016. CDBG grant funds are administered by the City's Financial Operations Division, which is under the Financial and Management Services Department.

Program year	Date use of funds may begin	Grant number (entitlement)	Funding
2014	7/1/2014	B14MC060567	\$1,970,284
2015	7/1/2015	B15MC060567	2,020,124
2016	7/1/2016	B16MC060567	1,932,762
Total funds			5,923,170

The City provided \$797,222 in CDBG grant funds to its code enforcement program for program years 2014 to 2016. Code enforcement is defined as a process whereby local governments gain compliance with ordinances and regulations regarding health and housing codes, land use and zoning ordinances, sign standards, and uniform building and fire codes. Code enforcement may take place in primarily residential, commercial, and industrial areas.

Our audit objective was to determine whether the City administered its CDBG code enforcement program in accordance with HUD requirements.

Results of Audit

Finding 1: The City Did Not Administer Its Code Enforcement Program in Accordance With Requirements

The City did not use its CDBG funds for code enforcement in accordance with HUD requirements. Specifically, it did not (1) have a sufficient definition of deterioration or a written strategy describing how the program would be used to arrest the decline in CDBG-eligible target areas or (2) maintain adequate support for the eligibility of code enforcement payroll costs. This condition occurred because the City did not have adequate written procedures and controls over its CDBG program to ensure that it met HUD requirements and City staff was not sufficiently knowledgeable of program requirements. As a result, the City could not properly support \$797,222 in code enforcement salary expenditures.

The City Did Not Establish and Define Deteriorated Target Areas or Develop a Strategy

The City did not have a sufficient definition of deterioration or written strategy describing how the program would be used to arrest the decline in CDBG eligible target areas. HUD regulations at 24 CFR 570.202(c), state that CDBG funds may be used for code enforcement for costs incurred for inspection for code violations and enforcement of codes in deteriorating or deteriorated areas when such enforcement, together with public or private improvements, rehabilitation, or services to be provided, may be expected to arrest the decline of the area, and 24 CFR 570.207(a)(2) prohibits their use for general government expenses (appendix C). The City spent and drew down \$830,218 for its code enforcement activity throughout our audit scope (July 1, 2014 to June 30, 2017). However, it did not adequately distinguish between its CDBG code enforcement and its regular responsibilities as a unit of general local government.

The City had no written deterioration definition or policy in effect for its code compliance officers' inspection activities between July 1, 2014 and June 30, 2017. In response to our inquiries, the City issued a deterioration policy (policy number 2017-01); however, this definition was not effective until November 30, 2017. In addition, the City had not designated or provided support showing that the specific CDBG target areas serviced by code compliance officers were deteriorated. The City's policy generally identified deteriorated areas only as "CDBG areas" or in "predominantly residential CDBG areas where a minimum of 51 percent of these residents are low-income and moderate-income as determined by the current City of Moreno Valley CDBG program administrator."

In addition, the City had no strategy or plan to describe how the program would be used in conjunction with public or private improvements, rehabilitation, or services that would be expected to arrest the decline in CDBG-eligible target areas as required in HUD, Office of Community Planning and Development (CPD), Notice CPD-14-016 and the Guide to National Objectives and Eligible Activities for Entitlement Communities (appendix C).

The City’s lack of a written deterioration definition or support that target areas were deteriorated, combined with its not establishing a strategy or plan to describe how the program would be used to arrest the decline in CDBG eligible target areas called into question the eligibility of the entire amount drawn for code enforcement.

The City Did Not Adequately Support Code Enforcement Payroll Costs

HUD regulations at 2 CFR 200.430 state that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed and must be supported by a system of internal control, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated (appendix C). The City drew down CDBG funds for code enforcement salaries and benefits amounting to \$830,218 for program years 2014, 2015, and 2016; however, it did not properly support that the costs were attributable to the program.

The City’s code enforcement department designated specific code compliance officers to work only in eligible CDBG areas and charge 100 percent of their work time to the CDBG program. The City’s quarterly reports showed that the officers performed community outreach activities in addition to their normal inspection activities. Although community outreach is an eligible CDBG activity, it is not eligible to be charged to the code enforcement activity budget. The code compliance officers’ timesheets did not indicate the type of work activity conducted, and there was no payroll allocation of time among different CDBG activities or any other funding source. In addition, the City’s daily case activity reports, which listed the daily inspection activities performed by officers, did not consistently record applicable time or indicate when community outreach was conducted. As a result, we could not determine whether the payroll charges to code enforcement represented the expense for performing eligible inspection activities or how much should have been allocated to a public service budget.

In addition, code compliance officers did not stay completely within CDBG-eligible boundaries when conducting code enforcement inspections. Our comparison of the City’s mapping information detailing CDBG target-area data (such as boundaries and parameters) to the CDBG inspection addresses identified in the quarterly report (see the Scope and Methodology section) showed that during program years 2014, 2015, and 2016,¹ there were 840 cases worked by CDBG compliance officers that were outside CDBG-designated boundaries. There were also 136 cases with a bad or blank address.

Fiscal year	Inspections inside CDBG boundary (A)	Inspections with bad or blank address (B)	Inspections outside CDBG boundary (C)	Total inspection records (D)	Percentage of questionable inspections (B) + (C) / (D)
14-15	1,656	15	362	2,033	18.54%
15-16	2,203	47	326	2,576	14.48%

¹ Program years 2014, 2015, and 2016 correspond to the City’s fiscal years: July 1, 2014, to June 30, 2015; July 1, 2015, to June 30, 2016; and July 1, 2016, to June 30, 2017, respectively

Fiscal year	Inspections inside CDBG boundary (A)	Inspections with bad or blank address (B)	Inspections outside CDBG boundary (C)	Total inspection records (D)	Percentage of questionable inspections (B) + (C) / (D)
16-17	3,627	74	152	3,853	5.8%
Total	7,486	136	840	8,462	11.53%

Overall, between 2014 and 2017, the City performed 11.53 percent (976 cases out of 8,462) of its code enforcement inspection activity outside CDBG areas or at locations that were not adequately identified. Although 100 percent of a code compliance officers' payroll was paid with CDBG funds, the officers conducted work activities outside eligible CDBG target areas. Since there are no hours listed on the quarterly reports indicating the amount of work time associated with the individual inspections, we could not quantify the actual costs associated with these inspections.

Finally, the City applied incorrect allocation percentages on the work logs for two code enforcement employees, thereby overstating their salaries charged to the CDBG program. Upon our inquiry, the City acknowledged that it used incorrect allocation percentages in paying salaries and repaid the program the overallocated amount of \$32,996 in CDBG grant funds in the form of a drawdown adjustment on an open project. (See appendix D for voucher amounts repaid.)

Overall, the CDBG code enforcement salary and benefits of \$797,222² were not adequately supported due to the City's not adequately identifying and separating out outreach activity and inspections performed outside CDBG-eligible areas.

The City Lacked Proper Training To Administer Its CDBG Program

The code enforcement and payroll issues discussed above occurred because code enforcement staff lacked the proper training and knowledge to administer the CDBG program. The code enforcement staff had not received specific training with respect to CDBG requirements while employed by the City. Also, the code compliance field supervisor had managed the program only since July 2017. He stated that the code enforcement staff had not received formal CDBG training but that such training would be helpful. Thus, code enforcement staff was not knowledgeable of HUD requirements related to administering and implementing (such as tracking work time and staying within eligible boundaries) the City's CDBG program.

² Although the total payroll was \$830,218, the unsupported cost was adjusted by the \$32,996 in overallocated amounts that were later paid back by the City during the course of our audit fieldwork (\$830,218 - \$32,996 = 797,222).

Conclusion

The City did not properly develop a sufficient definition of deterioration and did not have a written strategy or plan to describe how the program would be used to arrest the decline in CDBG-eligible target areas. It also did not maintain adequate support for code enforcement payroll, as its code officers conducted inspections outside CDBG-eligible boundaries and performed non-code-enforcement activities. This condition occurred because the City did not have adequate written procedures and controls for its CDBG program to that ensure it met HUD requirements. Also, City staff did not appear to be sufficiently knowledgeable and did not have adequate training on HUD CDBG regulations or program requirements. These issues were consistent throughout the audit scope. As a result, HUD did not have adequate assurance the entire amount drawn for code enforcement salaries for program years 2014, 2015, and 2016 totaling \$797,222 was used for eligible purposes (appendix D).

Recommendations

We recommend that the Acting Director of HUD's Los Angeles Office of Community Planning and Development require the City to

- 1A. Support the \$797,222 in code enforcement costs, including meeting code enforcement and salary and benefits requirements, or repay its program from non-Federal funds.
- 1B. Develop and implement written policies and procedures to define deteriorated or deteriorating areas, which would apply to its CDBG-eligible target areas, and establish a written plan for using the program, in conjunction with public or private improvements, rehabilitation, or services, that may be expected to arrest the decline in CDBG-eligible target areas.
- 1C. Develop and implement written procedures and controls to properly track and charge code enforcement officers' costs among different CDBG activities and other funding sources.
- 1D. Provide training to code enforcement staff on HUD CDBG regulations and requirements.

Scope and Methodology

We performed our audit fieldwork at the City's City Hall offices located at 14177 Frederick Street, Moreno Valley, CA, from August 21, 2017, through February 22, 2018. Our audit period covered July 1, 2014, to June 30, 2017, which we expanded when necessary³.

To accomplish our objective, we

- Reviewed applicable CDBG code enforcement-related program requirements and applicable Federal regulations.
- Reviewed relevant background information, including organizational charts, grant agreements, and grant applications.
- Reviewed relevant City policies and procedures.
- Reviewed audited financial statements, consolidated and annual action plans, and consolidated annual performance evaluation reports.
- Interviewed appropriate City personnel and HUD staff.
- Reviewed HUD monitoring reports.
- Reviewed reports from the Integrated Disbursement and Information System (IDIS)⁴ and Line of Credit Control System (LOCCS)⁵ to obtain CDBG disbursement information for the period tested.
- Reviewed drawdowns (vouchers) and supporting documentation for sampled program expenditures.
- Reviewed code enforcement program definition requirements for deterioration and to verify whether the program was used in conjunction with public or private improvement,

³ Code enforcement activities for grant years 2012 and 2013 had amounts expended and drawn within our audit period, in program year 2014.

⁴ IDIS is a web-based computer application that provides financial disbursement, tracking, and reporting activities for the CPD formula grant. It enables HUD grantees to draw down program funds and report on the activities and accomplishments outlined in the consolidated plan.

⁵ LOCCS is HUD's primary grant disbursement system, handling disbursements for most HUD programs.

rehabilitation, or services that would be expected to arrest the decline in CDBG-eligible target areas.

- Reviewed and verified the Geographic Information System (GIS) mapping for the City and determined whether code compliance officers performed inspections in CDBG-eligible target areas. The City provided GIS mapping information detailing CDBG target-area data (such as data on boundaries and parameters) on the CDBG inspection addresses identified in the quarterly report and also provided Excel files of the quarterly reports, specifying the addresses inspected by code compliance officers. We geocoded the information provided by the City and generated data files and maps that would be used to identify whether code enforcement officers provided inspections inside and outside CDBG-eligible target areas. We determined that between fiscal years 2014 and 2017, there were 840 cases worked by CDBG compliance officers that were outside CDBG-designated boundaries. There were also 136 cases with problem records, in which the addresses could not be geocoded because the information contained a bad or blank address or it could be geocoded only to the zip code level and not to an actual street level.
- Reviewed the City's program income records.

Sampling Information

The audit universe consisted of nine vouchers amounting to \$830,218 in drawdowns made for code enforcement salaries and benefits during program years 2014, 2015, and 2016 (July 1, 2014, through June 30, 2017). Overall, we selected a nonstatistical audit sample, choosing four code enforcement vouchers containing the highest draw amounts for each program year between 2014 and 2016. There were no other material non-salary and benefit code enforcement costs in our audit universe. Our audit results were limited to the vouchers in our sample and cannot be projected to the universe; however, the consistent issues with the code enforcement payroll costs, discussions with City staff, and the lack of adequate policies and procedures resulted in our questioning all code enforcement salary and benefit draws for the audit period.

The total amount of all four CDBG code enforcement vouchers chosen for review for the audit was \$654,435. (See the table in appendix D.)

We determined that data contained in source documentation provided by the City agreed with data contained in IDIS and LOCCS. We, therefore, assessed the computer data to be sufficiently reliable for our use during the audit.

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

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure compliance with applicable HUD rules and requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The City lacked adequate controls, including written policies and procedures, to define deteriorated areas and plan to arrest the decline in CDBG-eligible areas in accordance with HUD requirements (finding 1).

- The City did not have sufficient controls to ensure that eligible and reliable information was obtained to adequately support CDBG code enforcement salaries and benefits in accordance with HUD requirements (finding 1).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$ 797,222
Total	797,222

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a 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. The unsupported amount in this case includes \$797,222 in code enforcement costs having no supporting documentation for work hours charged to the code enforcement budget; no consistent duration of time recorded for inspection activities; inspections occurring outside CDBG-eligible boundaries; and an insufficient deterioration definition, with the City's having no set program strategy, working in conjunction with CDBG code enforcement, to arrest the decline in deteriorated areas. (See appendix D.)

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments


Comment 1

Comment 2

Comment 3

Comment 4

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April 11, 2018

Tanya E. Schulze
Regional Inspector General for Audit
300 N. Los Angeles Street, Suite 4070
Los Angeles, CA 90012

Re: OIG Audit of Moreno Valley CDBG – Response

Dear Ms. Schulze,

We appreciate the time you took in meeting with us to discuss the U.S. Department of Housing and Urban Developments (HUD) Office of Inspector General's (OIG) draft audit report on the recently completed audit of the City's Community Development Block Grant (CDBG) funds and Code Enforcement program. We have taken the observations and recommendations included in the draft report as an opportunity to re-enforce the City's current activities and to improve our administration of the CDBG program and the recipients so that those funds may continue to be appropriately used for the betterment of our community.

As the City has been conducting internal reviews and audits of the programs over the past couple years, which has led to new policies, procedures, and practices, we are further encouraged by the additional input and review from HUD to assure we are continuing to evolve our programs to remain within compliance of the ongoing adjustments from HUD. We would also like to note that although there have been changes and improvements in the recent years by the City, due to the time period of the audit conducted, many of these changes may not be recognized as part of your review efforts.

The City of Moreno Valley respectfully submits the following responses to the draft audit report for the Audit Finding: ***The City did not administer its code enforcement program in accordance with requirements.***

Through the City's prior annual CDBG applications, the City has required that applicants shall comply with all Federal and City policies and requirements affecting the CDBG program. Additionally within the City, the Recipient Department/Division shall comply with all policies, guidelines, and requirements of 24 CFR (Code of Federal Regulations) Part 570, effective September 1988; and Uniform Administrative Requirements 2 CFR 200, as applicable and as amended, as they relate to the acceptance and use of federal funds.

Based on other needs of the City and an evaluation of current Code Enforcement resources, the City is reviewing the funding provided through CDBG and working toward the elimination of CDBG funding for this program beginning in Fiscal Year 2018/19. As such, it should be noted that implementation of certain findings may not apply to future CDBG allocations as there will not be

FINANCIAL & MANAGEMENT SERVICES DEPARTMENT

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 4

any funding provided to the Code Enforcement program. Although, if the City should ever elect in the future to fund the Code Enforcement programs through CDBG, the City and the Recipient Department/Division will fully implement the policies, procedures, and training as recommended by HUD and as required per the funding agreement with the City.

RESPONSE TO: THE CITY DID NOT ESTABLISH AND DEFINE DETERIORATED TARGET AREAS OR DEVELOP A STRATEGY

Comment 5

Per the City's agreement, the Recipient Department/Division has certified that the activity(ies) carried out under the agreement will meet and comply with the National Objectives as defined in 24 CFR 570.200-570.209. Based on feedback from the Code Enforcement Division, the City issued a deterioration policy effective November 30, 2017 and based on review of this policy by HUD, Code Enforcement staff is currently revising the policy to encompass a further definition of deteriorated as it pertains to the CDBG target areas. We understand that the local HUD's Los Angeles Office of Community Planning and Development will be contacting the City following the distribution of the final audit report. We look forward to working directly with the office to provide any additional explanation requested to clarify that the CDBG target areas serviced are considered deteriorated.

RESPONSE TO: THE CITY DID NOT ADEQUATELY SUPPORT CODE ENFORCEMENT PAYROLL COSTS

Comment 6

Per the City's agreement, the Recipient Department/Division shall comply with all policies, guidelines, and requirements of 24 CFR Part 570, effective September 1988; and Uniform Administrative Requirements 2 CFR 200, as applicable and as amended, as they relate to the acceptance and use of federal funds under this Agreement. Through the Code Enforcement's standard practices, the program shall continue to document and maintain work logs to properly record both the time and specific activities conducted by Code Enforcement. Through the specific feedback provided by HUD, we will work with the Los Angeles Office of Community Planning and Development to provide the additional documentation requested to further identify and separate out any outreach activities and inspections performed outside the CDBG eligible areas. As per the recommended actions, this additional documentation may provide the support to establish eligibility for prior Code Enforcement expenditures of CDBG funds.

RESPONSE TO: THE CITY LACKED PROPER TRAINING TO ADMINISTER ITS CDBG PROGRAM

Comment 3

Through the City's prior annual CDBG applications, the City has required that applicants shall comply with all Federal and City policies and requirements affecting the CDBG program. Additionally, the Recipient Department/Division shall comply with all policies, guidelines, and requirements of 24 CFR Part 570, effective September 1988; and Uniform Administrative Requirements 2 CFR 200, as applicable and as amended, as they relate to the acceptance and use of federal funds under this Agreement.

Comment 4

Beginning with FY 2018/19, the City will no longer provide funding for Code Enforcement activities through CDBG. If the City re-establishes funding for Code Enforcement through CDBG, the City will require all code enforcement staff and code enforcement supervisors/management to receive specific training with respect to CDBG requirements as a part of any future application for or allocation of CDBG funds for Code Enforcement. Any established training program may be

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 7

submitted for review to the Los Angeles Office of Community Planning and Development prior to implementation to assure compliance with the CFR.

We understand that the local HUD's Los Angeles Office of Community Planning and Development will be contacting the City following the distribution of the final audit report. We look forward to working directly with the office to provide the additional supporting documentation to support the Code Enforcement payroll costs and additional explanation to clarify that the CDBG target areas serviced are considered deteriorated. Through these future discussions and additional documentation, we hope to work constructively with HUD to resolve any items through these non-financial means and resolve any outstanding items. The City shall also continue its current practice to require applicants and recipients of Federal funds to comply with all Federal and City policies and requirements affecting the CDBG program and will work diligently with HUD to assure future compliance.

Once again, we appreciate the opportunity to review and respond to the findings of the HUD OIG report.

Sincerely,



Thomas M. DeSantis
City Manager

Cc: William Vasquez, Director, Office of Community Planning and Development, 9DD
Ebony Madyun, Program Manager, Office of Comm. Planning and Development, 9DDM2
Ray Brewer, Los Angeles Field Officer Director, 9DMA
Allen Brock, Assistant City Manager, City of Moreno Valley
Marshall Eyerman, Chief Financial Officer, City of Moreno Valley
Dena Heald, Financial Operations Division Manager, City of Moreno Valley

OIG Evaluation of Auditee Comments

- Comment 1 We appreciate the City considering the report and recommendations as an opportunity to improve its administration of the CDBG program.
- Comment 2 The City claimed it made changes and improvements in recent years to the Code Enforcement program that were not recognized by OIG's review efforts. We acknowledge that the City has made efforts to change its policies and procedures for the program; however, these changes occurred only after our audit inquiries. For instance, the City had no definition of deterioration during the audit period and only developed a deterioration policy after we began asking questions about the City's definition. In addition, the City still did not support that CDBG target areas were deteriorated or have a written strategy describing how the program would be used to arrest the decline in CDBG eligible target areas. These issues continued because code enforcement staff lacked the proper training to administer the CDBG program. We therefore continue to recommend that the City implement written policies and procedures to sufficiently define deteriorated areas and establish a written plan for how the program would be used to arrest the decline in CDBG eligible target areas.
- Comment 3 We acknowledge the City's commitment to comply with policies and requirements affecting the CDBG program, specifically, having recipient Department/Divisions within the City comply with all policies, guidelines, and requirements under 24 CFR Part 570 and Uniform Administrative Requirements under 2CFR 200, as they relate to the acceptance and use of Federal funds.
- Comment 4 We acknowledge that the City plans to work towards the elimination of future CDBG funding for the Code Enforcement program beginning in fiscal year 2018-2019. Should this take place, the City will have the opportunity to work with HUD concerning the continued applicability of the specific recommendations during the audit resolution process. We recognize that the City's plans to implement written policies, procedures, and training should the City fund the Code Enforcement department with CDBG funding in the future.
- Comment 5 We recognize the City's efforts to revise its current deterioration policy (effective November 30, 2017) and further amend the policy's definition of deterioration as it pertains to CDBG target areas. Moreover, we reiterate our recommendation for the City to establish and implement a written plan for using the program, in conjunction with public or private improvements, rehabilitation, or services, that may be expected to arrest the decline in CDBG-eligible target areas.

- Comment 6 We acknowledge the City's willingness to work with HUD to provide documentation to identify and separate out any outreach activities and for inspections performed outside CDBG eligible areas. However, we continue to maintain that the documentation (time sheets, work logs, and quarterly reports) must accurately reflect the work performed and provide reasonable assurance that code enforcement charges are accurate, allowable, and properly allocated.
- Comment 7 We appreciate the City's commitment to working with HUD to address the report recommendations during the audit resolution process.

Appendix C

Criteria

24 CFR 570.202(c), Code enforcement

Costs incurred for inspection for code violations and enforcement of codes (e.g., salaries and related expenses of code enforcement inspectors and legal proceedings, but not including the cost of correcting the violations) in deteriorating or deteriorated areas when such enforcement together with public or private improvements, rehabilitation, or services to be provided may be expected to arrest the decline of the area.

24 CFR 570.207(a)(2)

General government expenses. Except as otherwise specifically authorized in this subpart or under 2 CFR part 200, subpart E, expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance under this part.

HUD Notice CPD-14-016, Use of CDBG Funds for Code Enforcement Activities

V. National Objectives for Code Enforcement

A. Low and Moderate Income Area Benefit

Code enforcement activities may meet the national objective of benefit to low and moderate income persons on an area basis under § 570.208(a)(1) (for Entitlements)...when carried out in deteriorated or deteriorating areas and when carried out in conjunction with public or private improvements, rehabilitation, or services that may be expected to arrest the deterioration of the area.

IX. Recordkeeping Requirements

- states that when carrying out CDBG-assisted code enforcement activities, the grantee should maintain records that include a description of the conditions of the areas in which CDBG funds are used for code enforcement, demonstrating that these areas meet the state local law definition of deteriorated/deteriorating.
- Grantees should maintain salary records (salaries, benefits, and timesheets) of code enforcement inspectors being paid with CDBG funds and a description of all areas they are responsible for inspecting.

CDBG Guide to National Objectives & Eligible Activities for Entitlement Communities, L/M [low-moderate] Income Area Benefit

The code enforcement is targeted at a deteriorated or deteriorating area delineated by the grantee and:

- (1) At least 51% (or less if the upper quartile applies) of the residents of the area are L/M income persons; and
- (2) The code enforcement, together with public improvements, rehabilitation, and services to be provided, may be expected to arrest the decline of the area.

2 CFR 200.430 Compensation—personal services

(a) *General.* Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in § 200.431 Compensation— fringe benefits. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- (3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

(b) *Reasonableness.* Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the non-Federal entity. In cases where the kinds of employees required for Federal awards are not found in the other activities of the non-Federal entity, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the non-Federal entity competes for the kind of employees involved.

2 CFR 200.430, Compensation-personal services (h)(8)(i) *Standards for Documentation Personnel Expenses*

(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- (ii) Be incorporated into the official records of the non-Federal entity.
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

(8) For a non-Federal entity where the records do not meet the standards described in this section, the Federal government may require personnel activity reports, including prescribed certifications, or equivalent documentation that support the records as required in this section.

Appendix D

Breakdown of Questioned Costs

Voucher number	Voucher date	Grant number	Grant year	Drawn amount (A)	Repaid voucher ⁶ (B)	Unsupported amount (A – B)
Audit sample						
5800774 ⁷	4/16/15	B12MC060567	2012	\$91,255	\$24,465	\$190,924
		B13MC060567	2013	124,134		
5906881	3/17/16	B15MC060567	2015	130,479		130,479
6016546	2/28/17	B16MC060567	2016	145,122		145,122
6064861	7/27/17	B16MC060567	2016	163,445		163,445
Audit sample subtotal				654,435	24,465	629,970
Additional vouchers in audit period⁸						
5820669	6/18/15	B13MC060567	2013	25,784	2,503	23,281
5820719	6/18/15	B13MC060567	2013	39,088	3,525	35,563
5845092	9/3/15	B13MC060567	2013	22,667	2,503	20,164
5936869	6/20/16	B15MC060567	2015	42,141		42,141
5952615	8/9/16	B15MC060567	2015	46,103		46,103
Additional vouchers subtotal				175,783	8,531	167,252
Total unsupported				830,218	32,996	797,222

⁶ Voucher amounts the City repaid to the program due to overallocations (finding)

⁷ The code enforcement activities amounts drawn on voucher 5800774 were for grant years 2012 and 2013 but were drawn on the same voucher during program year 2014.

⁸ Vouchers that were not tested or included in the audit sample but included as part of the unsupported questioned costs (explanation above).