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NEWS RELEASE

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FOR RELEASE April 24, 2009

Auditor of State David A. Vaudt today released a report on the Community Development Block Grant and Home Investment Partnerships Programs administered by the Region XII Council of Governments (Council). The Council is located in Carroll, Iowa and serves a 6 county area in western Iowa, including all the cities within the 6 county area. The Council was established under Chapter 28E of the *Code of Iowa*. A function of the Council is to administer Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) projects for cities within the region.

The report, which covers the period July 1, 2005 through November 21, 2008, was requested by the Iowa Department of Economic Development (DED). DED requested specific CDBG and HOME projects administered by the Council and the Council's financial management system be reviewed.

Vaudt reported the Council did not maintain adequate documentation of monitoring performed on CDBG and HOME projects. In many cases, the only indication work was completed was a signed statement by the contractor. Vaudt reported inspection forms prepared by Council staff showing their review and approval of the work performed as of the date of the request for payment were not always maintained. However, a final inspection form was completed once all work on the project had been completed.

Vaudt also identified supporting documentation submitted by contractors working on the projects did not provide adequate detail of the work performed, materials purchased or the time frame in which the work was completed. In addition, 17 travel claims totaling \$4,244.85 submitted by Council staff did not include adequate supporting documentation identifying the purpose of the travel or how the expense should be allocated.

Vaudt also reported the Council did not provide adequate detail in the billing letters submitted for reimbursement of administrative expenses. Billings should include the number of hours worked and direct and indirect charges allocated to project administration. In addition, a bid submitted by one contractor was adjusted by Council staff.

The report includes recommendations to strengthen the Council's internal controls and overall operations, such as improving documentation of project monitoring and contractor payments.

Copies of the report have been filed with the Region XII Council of Governments and the Iowa Department of Economic Development. A copy of the report is also available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

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**A REVIEW OF THE
COMMUNITY DEVELOPMENT BLOCK GRANT AND
HOME INVESTMENT PARTNERSHIPS PROGRAMS
ADMINISTERED BY THE REGION XII COUNCIL OF GOVERNMENTS
CARROLL, IOWA**

**FOR THE PERIOD
JULY 1, 2005 THROUGH NOVEMBER 21, 2008**

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Auditor of State's Report

To the Board Members of the
Region XII Council of Governments:

At the request of the Iowa Department of Economic Development (DED), we conducted a review of the Community Development Block Grant (CDBG) and Home Investment Partnerships (HOME) Programs administered by the Region XII Council of Governments (Council). We have applied certain tests and procedures to selected projects and financial transactions of the Council for the period July 1, 2005 through November 21, 2008. Based on a review of relevant information and discussions with Council and DED personnel, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place.
- (2) Reviewed the Council's financial statement audit reports to identify findings related to the Council's administration of the CDBG and HOME programs.
- (3) Interviewed the Council's Executive Director regarding operations of the Council and administrative procedures followed.
- (4) Interviewed current employees concerning time sheet preparation and general operations of the Council.
- (5) Reviewed the procedures for recording and allocating time to the various programs administered by the Council.
- (6) Examined the basis for allocating indirect costs to the CDBG and HOME programs administered by the Council for compliance with program requirements.
- (7) Examined CDBG and HOME project files to determine if requests for reimbursement were properly supported and billed to the cities.
- (8) Compared the general administrative budgets for each CDBG and HOME project administered by the Council to the billings for reimbursement.
- (9) Examined selected project files to determine if adequate monitoring was performed and documented.
- (10) Reviewed compliance with the Council's grievance procedures for a complaint brought to our attention by the homeowner.
- (11) Reviewed the Council's use of lines of credit and interest to determine if the interest was properly allocated to the programs administered by the Council.

Based on these procedures, we identified the following:

- Invoices submitted by the Council for reimbursement of administrative expenses did not include the hours charged or the direct and indirect costs allocated for each of the administrative categories. These categories include general, rehabilitation and lead hazard administration.

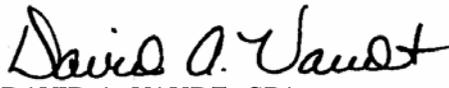
- The Council requires contractors to submit a “Contractor Pay Request” form in order to receive payment for work performed. The Council does not require detailed supporting documentation, such as an invoice or bill showing the work performed, hours worked or materials and supplies purchased, for CDBG and HOME housing rehabilitation projects.
- Travel incurred by the Executive Director was not approved by the Board or its designee. Of the 20 travel claims we tested for Council staff, 17 claims totaling \$4,244.85 did not have adequate supporting documentation to determine the purpose of the travel or how the expense should be allocated
- For 4 of 12 project files reviewed, Council staff did not document the inspection of the home prior to paying the progress billing for the contractor. It is not possible to determine if an inspection was completed. For 1 of these 4, monitoring of the project would have identified potential concerns with the contractor. As a result of the failure to adequately monitor this project, the homeowner identified several problem areas and filed a grievance against the Council.
- All CDBG and HOME housing rehabilitation projects require bids be solicited. Council staff adjusted a bid submitted by a contractor because the contractor did not properly complete the “work to be performed” section of the request for bid and, as a result, underbid several items.

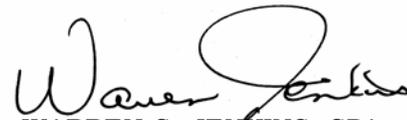
Our detailed findings and recommendations are presented in the Review Summary and **Exhibit A** of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Region XII Council of Governments, other matters might have come to our attention which would have been reported to you.

A copy of this report has been filed with the Iowa Department of Economic Development.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Region XII Council of Governments during the course of this review.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 14, 2009

A Review of the
Community Development Block Grant and
Home Investment Partnerships Programs
Administered by the Region XII Council of Governments

Review Summary

Background Information

The Region XII Council of Governments (Council) was established in 1973 as a 28E organization and filed articles of incorporation as a Nonprofit Corporation under Chapter 504A of the *Code of Iowa* in February 1976. The Council was created under Chapter 28E of the *Code of Iowa* to serve the 6 county region comprised of Audubon, Carroll, Crawford, Greene, Guthrie and Sac counties. The Council was originally chartered to provide grant writing and planning services to the counties in the area. The Council has since expanded its mission to include the coordination of services under various federal and state programs, including the Community Development Block Grant (CDBG) and Home Investment Partnerships (HOME) Programs. The Council's mission includes "provide and coordinate community and economic development services primarily through the delivery of planning services, technical program assistance, grant writing and grant administration to assist local governments and others in their efforts to improve the social and economic well-being of its 6 county service area". In addition, the Council also operates the Western Iowa Transit System which provides public transit to residents in the 6 county region.

Membership in the Council is limited to the counties which are part of the 28E agreement. Each County pays dues based on the population of the county. Membership fees are not charged to cities within the region. A city may be assessed a fee for work requested which is not a part of the normal services provided by the Council, such as a review of the City's policy and procedures manual or for help in developing an economic development plan.

In addition to dues from members, the Council receives funding from federal, state and local sources. According to the Council's 2008 financial audit, 15% of total revenue was received from Federal grants, 35% was from state programs, some of which are federally funded, 27% was from public support (local) and 23% was from other sources. The CDBG and HOME program funds received by the Council are passed through cities.

The primary programs administered by the Council and the related funding sources include:

- Western Iowa Transit Authority – The Council operates a regional transit authority to provide door-to-door service for residents in the region. The authority provides services to people with disabilities and the general public. The transit authority operated using funding provided by the Iowa Department of Transportation and local funding.
- Workforce Investment Act – The Council receives funding from the Iowa Department of Workforce Development to provide assistance to disadvantaged clients to assist in getting them back into the workforce through training, work experience and job hunting skills.
- Community Development Block Grant (CDBG)/Home Investment Partnerships Program (HOME) – CDBG and HOME are Federal grant programs providing funds for water/sewer, community facilities and housing rehabilitation projects. The Department of Economic Development (DED) awards grants to cities and counties for eligible projects and establishes budgets, including maximum administrative budgets. The Council establishes agreements with members to administer certain CDBG projects.

Cities within the region may contract with the Council to administer CDBG and HOME projects because the cities lack the staff or expertise to administer the projects. Under the contracts, the Council will perform most of the administrative functions, such as determining eligibility, monitoring the progress of the projects and preparing necessary reports and requests for funds. The Council will submit required reports for approval and signatures of city officials. The cities originally receive the funds from the Iowa Department of Economic Development (DED). In the case

of CDBG and HOME housing rehabilitation projects, the funds are paid to the Council which pays the majority of the bills prior to requesting reimbursement for the rehabilitation costs and its administrative costs. For other projects, such as water and sewer projects, the Council bills the city for administrative costs only. The city pays the remaining bills, including construction costs, directly after Council staff review the bills and recommend payment to city officials.

In accordance with CDBG and HOME program requirements, the Council should bill for actual costs incurred on a reimbursement basis. In addition, the revenue received by the Council should not exceed the actual expenditures for the projects. If expenditures exceed the budget established for the project, the city awarded the grant should provide funds for the excess costs.

DED requested our office review specific CDBG and HOME projects administered by the Council and its financial management system. As a result, we performed the procedures detailed in the Auditor of State's report for the period July 1, 2005 through November 21, 2008.

Detailed Findings

These procedures identified several concerns regarding the Council's administration of the CDBG and HOME projects. The concerns are listed below and discussed in detail in the following sections of this report.

- Billings to Cities – The billings submitted to the cities do not provide a detailed listing of the hours charged or other administrative costs billed to the projects. Using timesheets and costs allocated by the indirect cost plan, we were able to recalculate the amounts billed for the CDBG and HOME projects. In accordance with program requirements, the billings were based on actual hours/costs incurred.
- Supporting Documentation – The Council does not have a written policy requiring supporting documentation be included with the "Contractor Pay Request" form used by contractors to request payment for work performed. An invoice or billing was not required to be submitted and the Contractor Pay Request is the only document required by the Council in order to pay a contractor. As a result, there is no support for the hours worked or materials and supplies purchased. A review of the files found a few instances where support was attached by the contractor, even though it was not required. In most cases, the Contractor Pay Request is the only support for the payment to the contractor.

We also reviewed 20 travel claims submitted for payment by Council staff. We identified 17 claims totaling \$4,244.85 which did not include adequate support to determine the purpose of the travel or how the expense should be allocated. The only support available was the travel claim submitted by Council staff.

- Project Monitoring – The Council requires inspectors to visit the work site before payments are made to the contractors. According to Council staff we spoke with, the procedures for monitoring are not in writing, but Council staff are aware of the requirement a site visit is to be made prior to approving each claim for payment and the visit should be documented in the file. Of the 12 project files reviewed, we identified 4 files where the inspectors failed to document the monitoring visits. According to Council staff we spoke with, approval of the claim for payment shows the inspection took place.

Of the 12 project files selected for review, 1 housing rehabilitation project was selected as a result of a complaint by the homeowner regarding work performed by a contractor. According to the complaint, the Council failed to adequately monitor the contractor's work. A review of the file showed monitoring was not performed during the project. An inspection did occur as a result of the grievance.

- Altering of Bid – The CDBG and HOME housing rehabilitation program guidelines require the Council to solicit bids for all projects. We identified an instance where Council staff changed the bid submitted by a contractor. When bids are received which do not meet the requirements of the bid request, the bidder should be asked to resubmit a bid or the bid should be disqualified from consideration.

CDBG and HOME are Federal grant programs administered by DED. DED awards grants for these programs to cities and counties for eligible projects. Cities and counties awarded a grant may choose to independently administer the project or hire a third party to administer the project. Administration of projects includes, but is not limited to, preparing the specifications for the project, determining recipient eligibility for certain projects, evaluating bids received for the project, compiling required reports and performing inspections.

If a county or city chooses to use a third party administrator, arrangements may be made with a Council of Governments or Regional Planning Commission. Alternatively, the county or city may choose an administrator through a bid process.

According to the Council's Executive Director, most of the cities in the region are small and do not have the resources necessary to independently administer the grants. As a result, small cities typically arrange for the Council to administer the grants they are awarded.

In accordance with guidance provided by OMB Circular A-133 and the Office of Inspector General, Department of Housing and Urban Development, the Council is considered to be a subrecipient of the CDBG and HOME programs for projects administered by the Council for cities because the Council makes a significant number of administrative decisions for the cities. These administrative decisions include, but are not limited to, eligibility of homeowners for assistance, selection of contractors to provide construction services, report preparation and inspections. Because the Council is a subrecipient, all requirements of OMB Circular A-133, including audit requirements, are applicable to the Council. According to the Executive Director, the Council has always operated as a subrecipient and not as a vendor.

We reviewed the Council's audit reports for fiscal years 2006, 2007 and 2008 and determined CDBG and HOME program funds were included in the Council's Schedule of Expenditures of Federal Awards. Our review of the audit reports identified the programs were not classified as major programs in 2006, 2007 or 2008. In reviewing the audit reports and analyzing major program determinations, the CDBG and HOME programs should have been audited as major programs in accordance with OMB Circular A-133 at least once within the past 3 years.

PROGRAM COMPLIANCE

As the administrative entity for the CDBG and HOME programs, the Council is responsible for reviewing eligibility of individuals applying for the housing rehabilitation projects. Once a project is determined eligible, Council staff prepares requests for bid, evaluates the bids and recommends a contractor to the homeowner. Once the homeowner selects a contractor, Council staff are to monitor the project to ensure the requirements of the project and program guidelines are complied with. During the course of the project, Council staff prepares requests for reimbursement to be approved and signed by the City and then submits a request for reimbursement to DED for all construction and administrative expenses. Council staff also prepares periodic reports for the City to be submitted to DED showing the status of each home being rehabilitated under the program.

During our review, we did not identify any problems with eligibility determination, preparation of drawdowns or reporting.

BILLINGS TO CITIES

As the administrative entity for CDBG and HOME projects, Council staff prepares claims for reimbursement for each project, as needed. The claims include the direct costs from the contractors and a separate request for reimbursement of the Council's administrative costs. Once the claims are prepared, they are presented to the respective City Council for final approval. Once approved, the Mayor signs the request and the claim is submitted to DED for payment.

According to the Council's Executive Director, the amounts billed for administration are based on the actual costs incurred and actual hours charged by staff. According to the Executive Director, administrative costs are usually reimbursed using the CDBG/HOME funds received by the city for administration of the program. On occasion, the city will use general funds to pay for

administration of the program. This occurs when a city wants to include a local contribution as part of the CDBG/HOME project. When a city decides to pay the general administrative expense, the CDBG program allows the unused administrative funds to be used for direct program costs (additional projects) with the approval of DED.

Based on our review of the project files, we determined the Council tracked the hours charged to each project based on employee timesheets. According to the Council's accountant, she prepares a ledger sheet for each project each month which shows the total payroll cost charged to the project based on the employees' timesheets. In addition, the project ledger sheets include other direct and indirect costs allocated to the project in accordance with the Council's approved indirect cost plan. These costs include travel, printing and rent.

In accordance with program requirements, the amounts billed to the cities by the Council are based on actual costs incurred by the Council to administer the projects and the fees are to be paid by the cities on a reimbursement basis after expenses are incurred. The costs may include both direct and indirect costs. The Council may bill the cities using 1 of 2 methods. Both methods require the Council to charge the projects using the actual hours incurred, as supported by timesheets, invoices or other supporting documentation. Under the first method, the hours are charged based on the hourly rate for salaries and benefits for each staff person involved in the project. In addition, the Council includes a separate calculation showing direct costs, such as postage, phone and travel, and indirect costs, such as rent and utilities. The second method uses the actual hours incurred for all employees multiplied by an average hourly rate. This rate is based on the combination of direct costs and indirect costs required to administer the program. If this method is used, it should be evaluated at least annually and should vary between the type of project (housing, water and sewer or community facility). According to the Executive Director, the Council chose to bill based on actual costs instead of using a calculated rate.

Regardless of whether the Council is a subrecipient or a vendor, only actual time spent on the projects may be billed to the cities. As a subrecipient, the Council can only bill actual costs incurred. As a vendor, the Council may charge a higher hourly rate as long as it is in accordance with Federal regulations, is supported and is reasonable. In either case, the contract amount is the maximum the Council can charge for administration of the project.

There are 3 categories of administrative expenses the Council is allowed to charge for each CDBG project. Under the HOME program, only the first category is allowed. The categories are as follows:

- Grant Administration (Basic Services) – Costs related to the overall coordination of the project. Examples of costs allowed under this category include:
 - overall program oversight,
 - reporting,
 - indirect costs (rent, utilities, insurance etc.),
 - procurement of professional services (legal, appraisals, audit etc.),
 - environmental review.
- Project Management/Technical Services – Costs are specific to the individual houses being rehabilitated under the project. Examples include:
 - initial inspections and construction supervision,
 - work write-ups and planning for each house,
 - contractor procurement for each house,
 - financing costs, including interest associated with lines of credit,
 - eligibility determination and verification.

- Lead Administration – Costs are specific to administering the lead hazard component of the rehabilitation project. Examples include:
 - required notices and reports,
 - evaluation and testing for lead,
 - lead clearance testing (completion of project),
 - laboratory analysis costs.

Each Council employee prepares a timesheet which documents the hours spent on each project administered by the Council. The timesheets identify the hours spent on general administration, project administration and lead hazard administration and hours charged directly to the project. Direct charges include monitoring the contractor, inspection at the project site and resolving any issues related to the project.

As stated previously, timesheets prepared by Council employees are used as the basis for billing cities for administrative services. However, the bills submitted by the Council to the cities do not include the number of hours spent on each administrative category or other direct and indirect charges. Examples of a CDBG and a HOME billing prepared by the Council are included in **Appendices 1** and **2**. As illustrated by the **Appendices**, the bills prepared by the Council included only the total costs expended and the amount due. The billings should include the number of hours incurred by the Council’s staff for general, rehabilitation or lead hazard administration and other indirect costs, such as phone, postage and photocopy charges

Exhibit A compares the budgeted amount available for general administration to the actual costs charged for the projects reviewed. The budgeted administration amount is the maximum amount established for the project. This amount is not allocated to individual homes included in the overall project. The total costs shown on the **Exhibit** were supported by Council timesheets and other documentation.

SUPPORTING DOCUMENTATION

In accordance with program requirements, the Council maintains files for each CDBG and HOME project administered. The files are to include the application, eligibility determination, contracts, “Request for Payment” and related support, monitoring visits, correspondence and any other materials related to the project. The Council requires each contractor to complete a “Request for Payment” in order to be reimbursed for work performed. This form includes the amount to be reimbursed and the signatures of the contractor and the Council staff person approving the claim for payment.

We examined the project files for the projects requested by DED. Our testing identified instances in which contractors did not consistently submit adequate support for their billings. In almost all files reviewed, the contractor bills only included the amount to be paid. The bills did not provide any details about the labor and material costs for the project. According to staff we spoke with, the Council has not required contractors to submit detail with the request for payment. Based on our review, some contractors submitted supporting documentation with the request for payment, even though not required by the Council.

Although detailed costs are not currently required, it is a good business practice to request information and support for the material and labor charges to ensure costs are reasonable and materials are of appropriate quality. In addition, notes or other support of monitoring should also be included in the file as support for payment.

Supporting documentation should also be maintained for administrative expenses directly or indirectly charged to the programs administered by the Council. Our review of 20 travel claims identified 17 claims totaling \$4,244.85 which lacked adequate supporting documentation for us to

determine the purpose of the travel or how the expense should be allocated. The travel claims submitted by Council staff showed the location the staff traveled to, but not the purpose of the travel. The claims did not include any additional support, such as motel bills or meeting agendas. In addition, the claims submitted by the Executive Director are not approved by the Board or its designee.

PROJECT MONITORING

The Council requires inspectors to visit the work site before payments are made to the contractors. According to Council staff we spoke with, these procedures for monitoring are not in writing, but Council staff are aware of the requirement a site visit is to be made prior to approving each claim for payment and the visit should be documented in the file. The only exception is when the contractor orders supplies and materials, such as roofing material, prior to beginning work.

We reviewed 12 files for support of on-site monitoring for on-going rehabilitation projects. Our review identified 4 projects for which monitoring was not adequately documented prior to making progress payments to the contractor.

We also scanned additional files and found notes in some of the files prepared by Council staff showing they had monitored the project. Some of the notes included verification the contractor's materials were in compliance with the housing code and the project specifications. However, notes were not maintained in all files reviewed. According to staff we spoke with, staff have not always been diligent in completing documentation showing they have monitored a project. In some cases, a project may only be monitored at completion. Council staff also noted some monitoring may only be a drive by of the property to see if work is progressing instead of an actual site visit. Driving by a location would not allow Council staff to determine if the work was in accordance with the program guidelines or in accordance with the terms of the bid. Beginning in fiscal year 2008, the staff responsible for the inspection must sign the request for payment, as well as including support for their inspection in the project file.

Proper monitoring of a project should require the site visits be documented, including a list of items completed and those pending. Support from the contractor should include the dates work was performed, hours worked, supplies and materials purchased. The request for payment should also be signed by the homeowner indicating they have no concerns regarding the work done as of the date of the claim.

As previously stated, 1 of the projects selected for testing was a project in which the homeowner filed a grievance against the Council, the City of Denison and DED. This project file lacked support for both on-site monitoring and requests for reimbursement. The grievance by the homeowner was a result of concerns about the work completed by the contractor performing the rehabilitation work on their home. Some of the concerns identified by the homeowner included:

- Windows were improperly installed causing damage to the home.
- The roof was not properly repaired and, as a result, the roof leaked causing additional damage to the home.
- The homeowner was forced into using the contractor by the Council.
- The Council paid the contractor for work not performed.
- The contractor violated the terms of the rehabilitation program by not having insurance as required by the program rules.
- The bid submitted by the contractor was altered by Council staff to increase the bid amount.

In reviewing the concerns identified by the homeowner, we limited our review to the requirements of the CDBG program. These procedures include monitoring, bidding, grievance procedures, insurance and other program requirements. The items reviewed are identified below.

- Monitoring – As stated earlier, we reviewed the file and found no supporting documentation provided by the contractor to support the “Request for Payment”. The file also contained no evidence of an on-site review prior to the grievance being filed.
- Contractor Payments – According to the homeowner, the Council paid the contractor for work not performed and for materials never purchased by the contractor. We reviewed the bills submitted by the contractor to the Council for payment. The bills submitted by the contractor did not include information which would allow us to determine if he was paid for work not performed or materials not purchased. The request for payment includes the following:
 - Partial or final payment,
 - Amount to be reimbursed,
 - Contractor signature and
 - A space for the specification number and dollar amount to be identified.

The Council only requires contractors to complete the form showing the amount to be paid. Additional support is not attached or required. A copy of the form is included in **Appendix 3**. The form is signed by a Council staff person approving payment of the claim.

- Altering of Bid - According to the homeowner, Council staff altered the bid submitted by the contractor, causing the bid to be increased. We reviewed the bid submitted and determined the bid was adjusted by Council staff. We inquired of Council staff why the bid was changed. According to staff, the bid was adjusted because the contractor did not understand the “work to be performed” section of the request for bid and, as a result, underbid several line items. An example provided by Council staff was the contractor bid 2 windows when the request for bid stated 3 windows were to be replaced in a section of the home. According to Council staff, for these types of items, this particular contractor’s bid was changed by staff. When asked if the contractor approved the changes, the staff we spoke with mentioned they did talk to the contractor; however, they could not provide documentation showing the changes were discussed with the contractor.

When bids are received, Council staff should not adjust bids which do not meet the requirements set forth in the request for bids. The Council should request the contractor to rebid or disqualify the contractor from the process.

- Insurance – Under CDBG program guidelines, a contractor must carry liability insurance. The insurance must be in effect at the time the contract is signed with the homeowner through the closeout of the project. According to the homeowner, when they called the insurance company in March 2007 to see if any of the damage caused by the contractor would be covered by his insurance, they were told the contractor had let the policy lapse. According to the file maintained by the Council, the contractor provided proof of insurance prior to signing the contract in December 2006. According to the Executive Director, he also contacted the insurance company and was told the insurance policy had lapsed. The insurance company told him it is the policy holder’s responsibility to inform individuals the policy had lapsed. It is not the insurance company’s responsibility.

Although the Council did receive a copy of the active policy at the time the contractor was approved, the Council should ensure all insurance policies are current through the expected completion date of the project. If the project is extended, the Council should require the contractor to submit proof of insurance for the remainder of the project.

We did not address the overall workmanship of the contractor or the on-going dispute over the resolution of the homeowner's grievance.

Grievance Procedure

The CDBG and HOME programs require a grievance process be in place to resolve issues between the homeowner and the contractor. As a result of the previously mentioned complaint, we reviewed the grievance procedures used by the Council. According to Council staff and the CDBG Management guide prepared by DED, the required grievance process is as follows:

- The initial step is for the homeowner and the Council to work to resolve any issues.
- Failing to resolve the issues, the homeowner may request the City to resolve the dispute. A formal written request is required to be submitted.
- The City will then review the information and formalize its decision in writing. The decision of the City is binding on both parties.
- If the homeowner is still unsatisfied, they may request the Mayor of the City to review the matter.
- The final step is for the homeowner to take legal action.

We reviewed information provided by the Council and the homeowner. The information provided by the homeowner showed they attempted to resolve the issue with the contractor without success. They then worked with Council staff to resolve their concerns. According to the information available, the Council and the homeowner tried several times to resolve issues stemming from the contractor's failure to perform the work required. The homeowner and the Council were unable to reach a satisfactory settlement on the remaining work to be completed. As a result, the homeowner submitted a written request to the City asking it to review the issues and make a determination on how the issues should be resolved. According to the Council and the homeowner, several meetings were held and the City provided a written response to the Council and the homeowner setting forth its final determination. The final determination letter stated:

- 8 windows would be replaced,
- All other windows would be inspected for proper installation,
- The roof would be repaired,
- The chimney would be repaired, and
- Electrical work would be completed.

The letter further stated "no work would be completed until the homeowners signed off on the list of work to be completed". A copy of the letter is included in **Appendix 4**. The homeowner stated they requested the Mayor review the decision; however, no support was provided. As of the date of this report, the homeowner has not agreed to the City's decision. According to DED staff we spoke with, the City's decision is final and the only recourse available to the homeowner is legal action.

Based on our review, the Council followed the grievance procedures set forth in the management guide and the City's administrative plan.

Line of Credit

The Council also received several payments directly from DED under the CDBG and HOME programs to establish revolving loan funds to be used for down payment assistance and for low interest loans for projects which do not meet the requirements of the rehabilitation program. These funds were deposited into interest bearing accounts. The Council tracks the interest earned on these accounts each month. At the end of the month, the Council allocates the interest earned to each program based on the balances for the program. When funds are repaid, they are deposited, along with any interest, into the proper fund and into the Council's bank account.

The Council also uses a line of credit through a local bank in order to ensure timely payment of contractor claims under the CDBG and HOME programs. The CDBG and HOME programs allow lines of credit to be used to pay claims timely and allow interest paid on the lines of credit to be charged to the programs. We reviewed the line of credit utilized by the Council and the allocation method used to allocate interest to the various projects. The Council maintains a ledger sheet for each project showing the date payments were made from the lines of credit and the remaining balances. Once a month the interest expense is allocated based on the balances for each project. This is an allowable basis and supported by the records maintained by the Council.

Recommended Control Procedures

As part of our review, we determined the procedures used by the Council to record and allocate time to the CDBG and HOME projects administered by the Council. Based on our findings and observations detailed below, the following recommendations are made to strengthen the Council's internal controls.

- (A) Hourly Billing Rate – The Council has billed cities based on the actual hours included on staff timesheets. Requests for reimbursement of administrative expenditures do not include detail showing the hours worked, or the direct and indirect costs charged for administration.

Recommendation – The Council should ensure billings for projects include all hours charged and direct and indirect costs.

- (B) Supporting Documentation – Costs incurred for CDBG and HOME housing rehabilitation projects are required to be supported by adequate documentation. Adequate support includes contractor invoices detailing the type of work performed, costs of materials (lumber, furnace, air conditioners, etc.) and the labor incurred on the project. Our review of project files noted contractors did not consistently provide detailed documentation on their invoices. Most contractors submitted an invoice stating the amount to be paid, with no details of the work performed.

Our review also identified 17 of 20 travel claims lacked adequate support to determine the purpose of the travel or how the expense should be allocated. The 17 unsupported expenditures total \$4,244.85. In addition, the Executive Director's travel claims are not approved by the Board or its designee.

Recommendation – The Council should ensure adequate documentation is maintained to support all costs of the CDBG and HOME programs. The support should include detailed invoices from the contractors which show labor and material costs. In addition, the Executive Director's travel claims should be approved by the Board or its designee.

- (C) Project Monitoring – As the administrative entity, it is the Council's responsibility to monitor the projects to ensure the contractors are in compliance with the program requirements and to ensure the work performed meets the Iowa Minimum Housing Code standards. The Council does not maintain a formal written policy or procedure for

monitoring. According to staff, housing inspectors were responsible for inspecting the homes during the rehabilitation or when the homeowner called. The inspector was to maintain notes and other support for the visits in the project file. The on-site monitoring was to be completed prior to approving the request for payment.

We reviewed 12 files for on-going rehabilitation projects to determine if there was evidence of on-site monitoring. We identified 4 project files without documentation of any monitoring visits. Progress payments were made to the contractors without documenting on-site visits.

Recommendation – The Council should ensure adequate documentation is maintained to support monitoring of all projects. Monitoring should include enough information to ensure housing standards and the terms of the contract are being fulfilled. In addition, the Council should ensure all policies are in writing and are provided to staff.

- (D) Bidding – The Council requires bids be submitted for each project. Once bids are received, they are reviewed and the lowest bid is usually recommended to the homeowner or the City. Our review identified an instance where a bid submitted by a contractor was changed by Council staff. The file did not include the reasons why the bid was changed or if the change was approved by the contractor.

Recommendation – The Council should develop policies and procedures to ensure bidding procedures are complied with. Procedures should require sealed bids be submitted, bids be opened in a public forum and procedures for dealing with bids which do not include all the requirements of the project, including disqualification from the process.

- (E) Compliance with OMB Circular A-133 – In accordance with guidance provided by OMB Circular A-133 and the Office of Inspector General, Department of Housing and Urban Development, the Council is considered to be a subrecipient of the CDBG program for the projects administered by the Council for cities because the Council makes a significant number of administrative decisions for the cities.

As a result of our review, the Council's fiscal year 2006, 2007 and 2008 audit reports included the CDBG and HOME programs on the Schedule of Expenditures of Federal awards. The audit reports did not include the CDBG or HOME programs as major programs in fiscal years 2006, 2007 and 2008. Under OMB Circular A-133, programs determined to be a major program are required to be tested for compliance at least once every 3 years. Based on our review, the CDBG and HOME programs were major programs in each year.

Recommendation – The Council should ensure its annual audit is in compliance with OMB Circular A-133.

Exhibit

A Review of the
Community Development Block Grant and
Home Investment Partnership Programs
Administered by the Region XII Council of Governments

Comparison of Budget to Actual
July 1, 2005 through November 21, 2008

Project or Activity Name	Region XII Project Number	Project Period	Budgeted Administration
<u>CDBG - Housing Rehabilitation</u>			
City of Manning (08-HSG-043)	HF 02	03/31/08 - 03/31/10	\$ 15,000.00
City of Sac City (08-HSG-041)	HF 05	03/31/08 - 03/31/10	15,000.00 @
City of Jefferson (08-HSG-038)	HF 06	03/31/08 - 03/31/10	15,000.00 @
City of Perry (07-HSG-050)	HF 10	05/01/07 - 05/30/09	20,000.00
Subtotal Housing Projects			
<u>CDBG - Water/Sewer</u>			
City of Vail (06-WS-098)	BG 02	03/01/05 - 04/30/09	15,000.00
Carroll County (05-WS-016)	BG 03	03/01/05 - 12/31/08	10,000.00
Carroll County (05-WS-017)	BG 04	03/01/05 - 12/01/08	10,000.00 ^
City of Sac City (08-WS-063)	BG 05	03/17/08 - 01/31/09	20,000.00 @
City of Early (07-WS-025)	BG 06	03/15/07 - 04/30/09	15,000.00
City of Grand Junction (06-WS-042)	BG 07	03/01/05 - 09/30/08	15,000.00 ^
City of Stuart (08-WS-071)	BG 08	03/17/08 - 01/31/09	20,000.00
City of Bayard (06-WS-007)	BG 16	06/15/06 - 12/31/07	15,000.00 ^
Subtotal Water/Sewer Projects			
<u>CDBG - Community Facilities</u>			
Carroll County (08-CF-002)	BG 01	03/10/08 - 01/31/09	25,000.00
Total CDBG			
<u>HOME</u>			
Greene County (08-HM-109-65)	HF 07	03/31/08 - 03/31/10	15,000.00 @
Greene County (07-HM-117-69)	HF 14	05/31/07 - 05/31/09	15,000.00
New Opportunities, Inc. (05-HM-307-69)	HF 15	03/31/05 - 02/28/09	10,000.00
City of Manilla (06-HM-113-69)	HF 16	06/01/06 - 06/30/09	10,000.00
City of Denison (06-HM-115-69)	HF 18	06/01/06 - 06/30/09	15,000.00
City of Wall Lake (07-HM-118-65)	HF 19	05/31/07 - 05/31/09	10,500.00 #
Total HOME			

@ - The Council has not yet billed the City.

^ - No additional billings will be submitted. The maximum administration budget has been billed.

- According to the agreement between the City and the Council, the City is paying for the administration and will not claim the general administration for the CDBG program.

Total Costs	Amount Billed	Difference
-	-	-
276.62	-	276.62
324.34	-	324.34
9,567.25	8,088.00	1,479.25
<u>10,168.21</u>	<u>8,088.00</u>	<u>2,080.21</u>
16,184.07	14,306.00	1,878.07
8,315.24	7,910.00	405.24
10,056.88	10,000.00	56.88
534.67	-	534.67
15,796.18	13,936.00	1,860.18
15,001.02	15,000.00	1.02
-	-	-
15,247.79	15,000.00	247.79
<u>81,135.85</u>	<u>76,152.00</u>	<u>4,983.85</u>
2,566.57	1,609.00	957.57
<u>\$ 93,870.63</u>	<u>85,849.00</u>	<u>8,021.63</u>
241.66	-	241.66
14,740.19	13,450.00	1,290.19
9,526.89	9,046.00	480.89
4,948.04	4,612.00	336.04
8,628.27	7,747.00	881.27
420.61	-	420.61
<u>\$ 38,505.66</u>	<u>34,855.00</u>	<u>3,650.66</u>

A Review of the
Community Development Block Grant and
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Staff

This review was performed by:

Annette K. Campbell, CPA, Director
James S. Cunningham, CPA, Senior Auditor II
Alison P. Baker, Assistant Auditor
Kurt D. Goldsmith, Assistant Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

A Review of the
Community Development Block Grant and
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Administration Billing Letter - HOME



APPROVED

October 23, 2008

Jane Heun, County Auditor
Greene County Courthouse
114 N Chestnut
Jefferson IA 50129

RE: HF14 Administration Billing #06
3rd DPA Program

Dear Jane,

Please consider this an invoice for **administration** services provided by Region XII COG for your Housing Fund grant. Program costs will be billed separately.

Line Item	Contract Amt.	Expended	Prev. Billed	Due
Administration	15,000.00	13,450.00	10,960.00	2,490.00
TOTAL	15,000.00	13,450.00	10,960.00	2,490.00

A breakdown of administrative costs is included. These funds will be included on the HOME draw request that Laurie Gilbert is currently preparing for the County. You need not pay this bill until those funds arrive. If you have any questions or concerns, please contact Laurie or me at the above phone number.

Sincerely,


Richard T. Hunsaker
Executive Director

A Review of the
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Administration Billing Letter - CDBG



August 26, 2008

Joan Schettler, Auditor
Carroll County Courthouse
114 E 6th Street
Carroll IA 51401

RE: CDBG Admin. Billing #1
BG01 New Opportunities

Dear Joan,

Please consider this your current invoice for administrative services provided by Region XII COG for your CDBG award.

Contract Amount	\$25,000.00
Expended to Date	\$1,609.00
Previously Billed	\$0.00
TOTAL DUE:	\$1,609.00

We will include the CDBG share of this amount on the next Form 1 drawdown that we prepare for you. You need not pay this bill until the check arrives from the State. If you have any questions, please contact Chris Whitaker or myself at the above phone number.

Sincerely,

A handwritten signature in black ink, appearing to read "Rick Hunsaker", with a long horizontal line extending to the right.

Richard T. Hunsaker
Executive Director

A Review of the
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Contractor Pay Request Form

P.05

2007 16:34

CONTRACTOR PAY REQUEST

Date: 1-21-07

Amount: 4000.00

A request for Partial / Final payment for the _____
(Name/Address)

For the work completed by: _____ on the following specifications & amounts:
(Date)

Spec # and \$ Amount	Spec # and \$ Amount
<u>NO-26, 27</u>	

Van Masin
Contractor Signature

Address/City

***** For Office Use Only *****

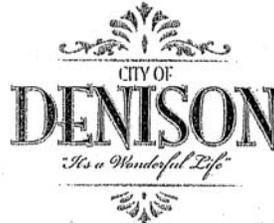
Date Received: _____ Sent All necessary lien waivers with this pay request.

Program: _____	Original Contract: <u>\$ 20979</u>
Pay Request Amount: <u>\$ 4000</u>	+ Change Orders: <u>\$ _____</u>
Minus 20%: <u>800</u>	- Amount Prev. Paid: <u>\$ 4160</u>
Pay <u>\$ 3200</u>	This Request: <u>\$ 3200</u>
	New Balance: <u>\$ 13619</u>

Approved for payment by:
Laure Gilbert
Signature and date

A Review of the
Community Development Block Grant and
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Administered by the Region XII Council of Governments

Final Determination Letter



November 2, 2007

Dear

The purpose of the dispute resolution procedure is to resolve any differences between the property owner and the contractor. If there is no resolution for the property owner at the administrative level (Region XII COG) then the grievance proceeds to the Denison Community Housing Agency (DCHA). The DCHA will review the signed grant for completion and workmanship of signed contractual contracts. **The Denison Community Housing Agency will not expand or redefine signed grant or contracts.**

The findings by the Denison Community Housing Agency at the October 29, 2007 meeting regarding your complaint against Region XII Council of Governments are as follows:

1. Verne Eischeid will finish the following work:
 - a. Eight (8) windows will be replaced (one under warranty).
 - b. The other windows will be inspected for proper installation.
 - c. The leak in the roof will be repaired.
 - d. Fill void on exterior chimney.
 - d. Foam insulation on hot water pipe is acceptable as a qualified product and does not have to be replaced by another insulation product.
2. McClellan Electric will finish electrical work (hanging wire).
3. Request for a security system is denied.
4. Replacing safety valve on boiler is not part of grant or any contract.

There will be no proceeding on work left to be completed under the grant until the Pagel's have signed off on the list of work to be completed. *(enclosed)*

The attempted expansion and redefining of the grant is **inappropriate**. The only work that is to be performed is that work that is specified within the confines of the grant and subsequent contracts.

Respectfully,

Jean Heiden

Jean Heiden
Denison Community Housing Agency Chairperson

Cc: Region XII COG

Pagel findings by DCHA.doc
11/02/2007