



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

Contact: David A. Vaudt  
515/281-5835  
or Tami Kusian  
515/281-5834

FOR RELEASE July 14, 2008

Auditor of State David A. Vaudt today released a report on the Community Development Block Grant Program administered by the Southern Iowa Council of Governments (Council). The Council is located in Creston, Iowa and serves 8 counties and all cities within the 8 county area in southern Iowa. The Council was established under Chapter 28E of the *Code of Iowa*. One of the primary functions of the Council is to administer Community Development Block Grant (CDBG) projects for cities within the region.

The report, which covers the period October 1, 2003 through September 30, 2007, was requested by the Iowa Department of Economic Development (DED) as a result of concerns regarding requests for reimbursements and allocation of administrative costs by the Council. DED requested a review of 5 CDBG projects administered by the Council.

Vaudt reported billings submitted to cities by the Council and subsequently to DED for administration of CDBG projects were not supported by actual hours recorded on employees' timesheets. Rather, the Council's Executive Director stated the billings were based on estimated completion of each project. In accordance with CDBG program regulations, the Council is to bill the projects based on actual time charged and expenses incurred.

Vaudt also reported the Council may be incurring excessive interest charges on its line of credit established at a local bank which allows the Council to pay contractors in a timely manner. Interest expense incurred on a line of credit is allowable for the CDBG program. However, the interest charged to the CDBG projects appeared excessive to DED staff. Several reasons were identified which caused additional interest expense to be incurred. The Council did not always submit billings to the cities in a timely manner, the City Councils did not always approve the billings in a timely manner since they usually meet just once per month and DED's processing time often takes 3 to 4 weeks or more if DED needs to request additional information.

Several internal control weaknesses were also identified. The report includes recommendations to strengthen the Council's internal controls and overall operations. Vaudt also recommended the Council work with representatives from both the cities and the

Department of Economic Development to develop procedures for submitting claims in a timely manner and to minimize the interest incurred on line of credit.

Copies of the report have been filed with the Southern Iowa 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>.

###

**A REVIEW OF THE  
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM  
ADMINISTERED BY THE SOUTHERN IOWA COUNCIL OF GOVERNMENTS  
CRESTON, IOWA**

**FOR THE PERIOD  
OCTOBER 1, 2003 THROUGH SEPTEMBER 30, 2007**

## Table of Contents

	<u>Page</u>
Auditor of State's Report	3-4
Review Summary:	
Background Information	5
Detailed Findings	6-11
Recommended Control Procedures	12-13
Exhibits:	
Comparison of Budget to Actual	<u>Exhibit</u> A 16-17
Staff	18
Appendices:	
Council Billing Letters	<u>Appendix</u> 1 21-24
Letter from DED to Council	2 25-26
E-mail from DED	3 27



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Auditor of State's Report

To the Board Members of the  
Southern Iowa Council of Governments:

At the request of the Iowa Department of Economic Development (DED), we conducted a review of the Community Development Block Grant program (CDBG) administered by the Southern Iowa Council of Governments (Council). We have applied certain tests and procedures to selected projects and financial transactions of the Council for the period October 1, 2003 through September 30, 2007. 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 any findings related to the Council's administration of the Community Development Block Grant (CDBG) program.
- (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 program and other programs administered by the Council for compliance with program requirements.
- (7) Examined CDBG project files to determine if requests for reimbursement were properly supported and billed to the cities.
- (8) Compared the administrative budgets for each CDBG project administered by the Council to the billings for reimbursement.

Based on these procedures, we identified the following:

- The hours recorded on employee timesheets did not support the time billed to the cities for administering the CDBG projects as required by federal regulations and DED's policies.
- Interest paid on the Council's line of credit used to finance CDBG construction projects is excessive because the Council's requests for reimbursement are not processed in a timely manner. The delays in processing occurred at the Council, the cities and DED.

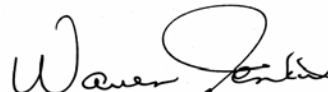
Our detailed findings and recommendations are presented in the Review Summary and **Exhibit A** of this report.

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 Southern Iowa Council of Governments, other matters might have come to our attention that 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 Southern Iowa 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

June 24, 2008

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Review Summary

**Background Information**

The Southern Iowa Council of Governments (Council) was established in June 1987. The Council was created under Chapter 28E of the *Code of Iowa* to serve an 8 county region comprised of Adair, Adams, Clarke, Decatur, Madison, Ringgold, Taylor and Union counties. The mission statement of the Council is to “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 eight-county service area”. The Council operates on a federal fiscal year which begins October 1 and ends September 30.

Membership in the Council is voluntary. Each county and city within the region is eligible to join the Council. In order to be an active member, each city and county must pay dues. A county or city may become inactive by notifying the Council of its intent to not pay dues for the upcoming period. An inactive county or city may reactivate its membership at any time by paying dues for the period.

In addition to dues from members, the Council receives funding from federal, state and local sources. According to the Council’s 2007 financial audit, 50% of total revenue was received from Federal grants, 23% from service fees, 10% from local governments and 17% from other sources. The CDBG funds received by the Council are passed through cities. These cities contract with the Council to administer CDBG project(s) because the cities lack the staff or expertise to administer the projects. Prior to the 2007 audit, the Council did not show the administrative funds received as Federal revenue or on the Schedule of Expenditures of Federal Awards. In the 2007 audit, the Council correctly reported the administrative funds received as Federal revenue and on the Schedule of Expenditures of Federal Awards.

In accordance with CDBG 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 expenditures for the projects. Because the CDBG program is on a reimbursement basis, the program should not have a fund balance. If expenditures exceed the budget established for the project, the city awarded the grant should provide funds for the excess costs.

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

- Community Development Block Grant Program (CDBG) – CDBG is a Federal grant program 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.
- Economic Development Administration (EDA) Revolving Loan Fund – The Council administers a revolving loan program which is funded by grants from the U.S. Department of Commerce Economic Development Administration, local funds and repayments on previously issued loans. The fund provides loans to small businesses throughout the 8 counties in the Council region. The loans are awarded to companies which will create and/or retain jobs in the region.
- First Time Home Buyers Revolving Loan Fund – The fund was created to help potential first time homebuyers meet the need for a down payment on a home. Funding for the program is provided by the Iowa Finance Authority and local funding.

During State fiscal year 2007, DED staff identified concerns with the requests for reimbursement submitted by cities based on bills from the Council for CDBG administrative expenditures. Specifically, DED staff questioned the amount of interest expense claimed by the Council for the use of a line of credit. DED staff identified an increase in the amount of interest claimed on recent requests for payment submitted by the Council. In accordance with CDBG requirements, a line of credit may be used to ensure construction costs are paid on a timely basis. In some instances, contractors are not willing to wait for the reimbursement process, which may take up to a month or more.

As DED staff continued to review the claims, they became concerned with the lack of documentation submitted by the Council with the requests for reimbursement. As a result of these concerns, DED requested assistance from the Office of Auditor of State to review the financial management system, including the draw down procedures, use of the line of credit, a review of underlying expenditure records and the subrecipient agreements in place for specific CDBG projects administered by the Council. The request included the following 5 projects:

- City of Osceola – 03-HSG-017
- City of Orient – 04-HSG-027
- City of Tingley – 04-HSG-025
- City of Creston – 04-HSG-024
- City of Diagonal – 04-HSG-065

As a result of the request from DED, we performed the procedures detailed in the Auditor of State’s report for the period October 1, 2003 through September 30, 2007.

### **Detailed Findings**

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

- Billings to Cities – The hours recorded on employee timesheets did not support the time billed to the cities for administering the CDBG projects as required by federal regulations and DED’s policies. Billings are based on the percentage completed as determined by Council staff performing inspections of the projects. In accordance with CDBG requirements, the billings are to be based on actual hours/costs incurred.
- Line of Credit Interest – The Council incurs interest on the line of credit used to pay the contractors performing the remodeling of the homes under the various agreements. Although the interest is an allowable cost, the Council incurs additional interest due to delays in processing the requests. The delays in processing occur at the Council, the cities and DED.

As stated previously, CDBG is a Federal grant program administered by DED. DED awards CDBG grants to cities and counties for eligible projects. Cities and counties awarded a CDBG grant may choose to independently administer the project or hire a third party to administer the project. Administration of CDBG 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 reports required by the CDBG program 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 CDBG projects. As a result, the small cities typically arrange for the Council to administer the CDBG 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 program for the 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 had not previously been identified as a subrecipient by the firm performing its annual financial statement audit. We reviewed the Council's audit reports for fiscal years 2005 and 2006 and determined the CDBG program was not included on the Council's Schedule of Expenditures of Federal Awards in either year. As a result, the CDBG program was not included in the Council's Single Audit as required. We discussed this issue with the Council's audit firm prior to the fiscal year 2007 audit. The Council's fiscal year 2007 audit included the CDBG program on the Schedule of Expenditures of Federal Awards which indicates the Council was tested as a subrecipient for the CDBG program that year. The audit report did not include any findings regarding the Council's administration of the program.

## **BILLINGS TO CITIES**

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

The Executive Director stated the amounts billed for administration of a CDBG project are based on benchmarks or the percentage of the project which has been completed. The percentage completed is based on the inspections performed by Council staff and are supported by inspection forms in the project housing files. According to the Executive Director, this method was used to bill cities because the Council believed it was a vendor rather than a subrecipient. The Council was also under the impression the contracts were a "not to exceed contract" and the Council could bill for the entire amount of the contract, not just actual costs.

Based on our review of the project files, we determined the Council was tracking the hours charged to each project from employee timesheets. However, these hours and the hourly rates calculated were not being used to prepare the bills submitted for reimbursement. The Council did not bill for the administrative expenditures for the CDBG projects in accordance with program requirements.

In accordance with CDBG program requirements, the amounts billed to the cities by the Council are to be based on actual costs incurred by the Council to administer the CDBG 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).

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 the Federal regulations, is supported and is reasonable. In either case, the contract amount is the maximum the Council can charge for administration of the CDBG project.

There are 3 categories of administrative expenses the Council is allowed to charge for each project. 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:
  - 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 hours on the timesheets are recorded by project, but the hours are not identified by the individual homes within a project. For each project, the timesheets do identify the hours spent on general administration, project administration and lead hazard administration.

As stated previously, the timesheets prepared by Council employees should be used as the basis for billing the cities for CDBG administrative services. However, the Council does not use the hours recorded on the timesheets for the billings to the cities. **Appendix 1** shows examples of billings prepared by the Council. As illustrated by the **Appendix**, the bills prepared by the Council include information about other direct costs, such as travel, phone and postage, and any indirect charges, such as rent and utilities.

**Exhibit A** compares the budgeted amount available for each administrative cost category to the actual costs charged for the 5 projects reviewed. The budgeted amount is the maximum amount established for the project. As illustrated by the **Exhibit**, only the project for the City of Tingley was completed by September 30, 2007. The remaining 4 projects are expected to incur additional construction and administrative costs.

The application for the Tingley project which was approved by DED included 6 homes to be completed. However, only 1 home was determined to meet the eligibility requirements of the CDBG program. As illustrated by **Exhibit A**, direct administration and lead hazard administration are budgeted on a per home basis, while general administration is on a project basis. The direct and lead hazard administration budgets were exceeded for the eligible home. In accordance with the program regulations, the funds budgeted for general administration may be used to cover additional costs incurred for direct administration and lead hazard administration. As a result, the project did not exceed the budget in total.

Based on our review of the billings submitted to the cities, the billings did not include detailed information regarding the number of hours incurred by the Council's staff for general, rehabilitation or lead hazard administration. However, billings did include details for other costs such as phone, postage and photocopy charges which were supported by invoices or other documentation maintained in the project files.

#### **LINE OF CREDIT**

As stated previously, a request must be submitted to the city for approval prior to submitting the request for reimbursement to DED. Because City Councils usually hold meetings once a month, it may take more than 2 months to pay the contractors. Once the bill is approved by the city, it may take several weeks or months for the bill to be reviewed and paid by DED. According to DED staff we spoke with, the usual processing time is 3-4 weeks after the claim is received. DED staff also stated additional time may be needed if they have questions about the claim or have to request additional support from the city or administrative entity. After the check is received by the city, it may take additional time for the city to pay the Council.

CDBG program requirements allow entities to use lines of credit for the costs of construction and other direct costs. However, the line of credit is not to be used to fund administrative costs. The Council has used a line of credit to pay contractors on a timely basis instead of waiting 30 to 60 days for the reimbursement requests to be approved and processed. According to the Executive Director, this was done in order to maintain good relations with the contractors in the area. According to the Executive Director, if the Council did not use the line of credit, many of the contractors would not bid or undertake projects because of the length of time it takes to get paid.

The line of credit is assessed an interest rate based on the current prime rate. The Council includes the interest as a separate line on the bills submitted to the cities. In accordance with CDBG program regulations, interest on a line of credit is an allowable cost of construction.

Council staff track the line of credit used for each project using a spreadsheet which shows the date the Council drew down funds on the line of credit, the date the payment is made to the contractor and the date the Council makes a payment on the line of credit. Our review of these spreadsheets did not identify any administrative costs charged to the line of credit. The only costs identified as charged to the line of credit were construction or rehabilitation costs of the project.

**Table 1** summarizes the total interest paid by the Council as of September 30, 2007 on the line of credit for each of the 5 projects we tested. As shown in the **Table**, DED reimbursed the Council for \$6,677.00 of the \$12,640.53 interest incurred on the line of credit. The remaining interest was determined to be unallowable by DED. Because DED did not reimburse the cities for the interest, the cities and the Council had to pay the remaining interest as shown by the **Table**.

**Table 1**

<b>Project</b>	<b>Project End Date</b>	<b>Total Interest as of 9/30/07</b>	<b>Reimbursed by DED</b>	<b>Reimbursed by City</b>	<b>Paid by Council</b>
Osceola	12/31/07	\$ 6,916.97	4,767.00	2,149.97	-
Orient	12/31/07	2,032.12	663.00	255.91	1,113.21
Tingley	12/31/06	237.51	-	-	237.51
Creston	02/29/08	2,309.15	1,247.00	218.00	844.15
Diagonal	10/31/07	1,144.78	-	-	1,144.78
<b>Total</b>		<b>\$ 12,640.53</b>	<b>6,677.00</b>	<b>2,623.88</b>	<b>3,339.65</b>

In a letter dated February 5, 2007 to the Council, DED disallowed payment of all future interest expense incurred by the Council on its line of credit. The main reason cited by DED was the length of time it took the Council to submit the bills to the cities and subsequent requests for payment to DED. A copy of the letter is included in **Appendix 2**. As stated previously, the Council's Executive Director stated many of the vendors used by the cities for these projects can not wait 3 to 4 weeks for payment.

As shown in **Table 1**, the cities and the Council paid \$2,623.88 and \$3,339.65, respectively, of the interest not allowed by DED. According to Council staff we spoke with, DED reimbursed the cities for the \$2,623.88 of previously disallowed interest in April and May 2008. DED has also reimbursed the Council for all but \$978.72 interest paid. Effective December 1, 2007, DED will reimburse "reasonable interest charges". An e-mail from DED staff documenting DED's policy on the reimbursement of interest is included in **Appendix 3**.

As stated previously, interest expense on lines of credit related to the costs of rehabilitation is an allowable cost under the CDBG program. In accordance with program regulations, the interest rate must be reasonable. According to the Executive Director, the delays in approving the bills are due to City Council meetings being held only once a month, cancellation of a meeting or a quorum not being present. Because the grant is with the City, all bills must be approved by the city prior to being submitted to DED for payment. If a city fails to approve a bill in a timely manner, the interest on the line of credit will continue to be charged to the project. It is the Council's practice to have a staff member attend the City Council meetings and submit the billings for the City Council's approval in person. The Council does not submit the bills to the cities through the mail or fax. According to the Executive Director, a Council representative did not attend some monthly meetings, which delayed the submission of the bills for City Council approval. When a Council representative did not attend a City Council meeting, the Executive Director stated it was because of scheduling conflicts or because the amount to be billed was not significant and the decision was made to not submit a bill that month.

Some of the delays in processing the bills have been a result of the time it takes DED to process the payment request. The delay in processing at DED has been caused because the Council did not provide sufficient documentation for the expenditures claimed and DED staff had to request additional support from the Council.

As previously stated, there are several factors which contributed to the increase in interest expense on the line of credit. When the cause is outside of the Council's control, the reason should be documented and reviewed with DED staff to determine if the CDBG program, the City or the Council should incur the additional interest costs. In situations where the Council does not bill the cities in a timely manner, the additional interest expense incurred should be the responsibility of the Council and not the CDBG program or the City.

## **SUPPORTING DOCUMENTATION**

In accordance with program requirements, the Council maintains files for each CDBG project administered and each house constructed or rehabilitated by the CDBG project. The files contain invoices from contractors and vendors, support for relocation costs and other costs involved with the project. The Council also maintains computerized files for each project, including the allocation of indirect costs, electronic timesheets and spreadsheets tracking the line of credit used for the project and interest paid on the line of credit.

We examined the project files for the 5 projects requested by DED. Our testing identified several instances in which support was not located in the project files. The support was later found by Council staff. In addition, the contractors used by the Council did not consistently submit adequate support for their billings. In almost all cases, 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.

Although detailed breakout of 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 an appropriate quality.

During our review of the files, we found evidence of monitoring performed by Council staff, which included verification materials were in compliance with the requirements and the specifications of the request for bid.

## **Recommended Control Procedures**

As part of our investigation, we reviewed the procedures used by the Council to record and allocate time to the CDBG 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 – According to DED staff we spoke with, the Council may bill projects under one of two methods. Under the first method, the hours are charged based on the hourly rate 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). In either method, the hourly rates used should be charged based on the actual hours incurred.

The Council has billed cities based on the percentage of completion on each project as determined by Council staff, which is not an allowable method per CDBG requirements.

Recommendation – The Council should ensure billings for projects are based on the actual hours and costs incurred or on an hourly rate supported by actual costs as required by program requirements.

- (B) Interest Charges – Interest expense on a line of credit used for construction and other non-administrative costs of housing rehabilitation is an allowable cost of the CDBG program. The interest expense included on the reimbursement requests has fluctuated from approximately \$100.00 to over \$1,000.00 per claim. This variation in the amount is a result of the time it takes to process the reimbursement request and receive reimbursement.

Since the CDBG grant is with the city, all bills must be approved by the city prior to being submitted to DED for payment. If the Council does not bill the city timely or the city fails to approve a bill in a timely manner, the interest on the line of credit will continue to accrue and be charged to the project. It is the Council's practice to have a staff member attend the City Council meetings and submit the billings for approval in person. The Council does not submit the bills to the cities through the mail or fax. According to the Executive Director, a Council representative did not attend some monthly meetings which delayed the submission of the bills for City Council approval. When a Council representative did not attend a City Council meeting, the Executive Director stated it was because of scheduling conflicts or because the amount to be billed was not significant and the decision was made to not submit a bill that month.

This process from the Council's billing to the city and reimbursement from DED can take from 3 weeks to 2 months.

Recommendation – When the cause is outside of the Council's control, the reason should be documented and reviewed with DED staff to determine if the CDBG program, the City or the Council should incur the additional interest costs. The Council should continue to work with DED and the cities to streamline the process to minimize interest incurred on the line of credit.

- (C) Supporting Documentation – Costs incurred for 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.

Recommendation – The Council should ensure adequate documentation is maintained to support all costs of the CDBG program. The support should include detailed invoices from the contractors which show labor and material costs.

- (D) 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.

According to the Executive Director, the Council had not previously been identified as a subrecipient by the firm performing its annual financial statement audit. The CDBG program was not included in the Council's Schedule of Expenditures of Federal Awards for fiscal years 2005 and 2006.

As a result of our review, the Council's fiscal year 2007 audit included the CDBG program on the Schedule of Expenditures of Federal awards which indicates the Council was tested as a subrecipient for the CDBG program that year. The audit report did not include any findings regarding the Council's administration of the program even though the Council billed the cities for administration of the CDBG projects based on benchmarks or percentage completed rather than actual costs.

Recommendation – The Council should implement procedures to ensure its billing process and annual audit are in compliance with OMB Circular A-133.

**A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments**



## **Exhibits**

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Comparison of Budget to Actual  
October 1, 2003 through September 30, 2007

City	Administration Category	Project End Date	CDBG Budget		
			Budget per Home	Homes Budgeted	Total Budget
Creston		2/29/2008			
	General Administration		@ \$ -	-	\$ 8,000.00
	Direct Administration		2,400.00	10.0	24,000.00
	Lead Hazard Administration		2,000.00	10.0	20,000.00
					<u>52,000.00</u>
Diagonal		10/31/2007			
	General Administration		@ -	-	7,900.00
	Direct Administration		2,400.00	4.0	9,600.00
	Lead Hazard Administration		2,000.00	4.0	8,000.00
					<u>25,500.00</u>
Orient		12/31/2007			
	General Administration		@ -	-	11,850.00
	Direct Administration		2,400.00	6.0	14,400.00
	Lead Hazard Administration		1,000.00	6.0	6,000.00
					<u>32,250.00</u>
Osceola		12/31/2007			
	General Administration		@ -	-	9,000.00
	Direct Administration		2,400.00	9.0	21,600.00
	Lead Hazard Administration		1,000.00	9.0	9,000.00
					<u>39,600.00</u>
Tingley		12/31/2006			
	General Administration		@ -	-	11,850.00
	Direct Administration		2,400.00	6.0	14,400.00
	Lead Hazard Administration		1,000.00	6.0	6,000.00
					<u>32,250.00</u>
	Total				<u>\$ 181,600.00</u>

@ - General administration is budgeted on a project basis and not by individual homes.

\* - The variance is calculated by taking the number of homes completed times the budget amount and comparing the amount to the actual charged per the Council billings.

Note: The CDBG budget includes only funding received from DED. It does not include local funding.

Actual as of 9/30/07			
Homes Completed	Allowed Budget	Total Billed	Variance * under/(over)
	\$ 8,000.00	6,319.00	1,681.00
8.0	19,200.00	10,524.00	8,676.00
8.0	16,000.00	5,213.00	10,787.00
	<u>43,200.00</u>	<u>22,056.00</u>	<u>21,144.00</u>
	7,900.00	5,922.00	1,978.00
4.0	9,600.00	6,240.00	3,360.00
4.0	8,000.00	140.00	7,860.00
	<u>25,500.00</u>	<u>12,302.00</u>	<u>13,198.00</u>
	11,850.00	8,989.00	2,861.00
6.0	14,400.00	12,900.00	1,500.00
6.0	6,000.00	9,848.00	(3,848.00)
	<u>32,250.00</u>	<u>31,737.00</u>	<u>513.00</u>
	9,000.00	9,081.00	(81.00)
9.0	21,600.00	13,891.00	7,709.00
9.0	9,000.00	18,454.00	(9,454.00)
	<u>39,600.00</u>	<u>41,426.00</u>	<u>(1,826.00)</u>
	11,850.00	5,811.00	6,039.00
1.0	2,400.00	5,039.00	(2,639.00)
1.0	1,000.00	2,119.00	(1,119.00)
	<u>15,250.00</u>	<u>12,969.00</u>	<u>2,281.00</u>
	<u>155,800.00</u>	<u>120,490.00</u>	<u>35,310.00</u>

---

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Staff

This review was performed by:

Annette K. Campbell, CPA, Director  
James S. Cunningham, CPA, Senior Auditor II  
Brett C. Conner, Assistant Auditor



Tamera S. Kusian, CPA  
Deputy Auditor of State

## **Appendices**

**A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments**

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Council Billing Letters



**SOUTHERN IOWA COUNCIL  
OF GOVERNMENTS**

Southern Iowa Development Group, Inc.  
Southern Iowa COG Housing Trust Fund, Inc.

P.O. Box 102  
101 East Montgomery St.  
Creston, Iowa 50801-0102

Telephone 641.782.8491  
Facsimile 641.782.8492  
e-mail SICOG@sicog.com

- Royce Dredge, Chairperson  
Ringgold County
- David Ferris, Vice-Chair  
Taylor County
- J. R. Cornett, Secretary  
Decatur County
- Mike King, Treasurer  
Union County
- Mark Olive  
Adams County
- Amy Lampe  
Clarke County
- Steve Raymond  
Madison County
- Beth Waddle  
Interest Group
- Shirley Ross  
Montanella, Orient  
Midgewater & Adair

June 30, 2006

Fred Diehl, Mayor  
City of Osceola  
City Hall, P.O. Box 465  
Osceola, IA 50213

RE: Housing Rehabilitation - 03-HSG-017 (Invoice #3)

Professional Administrative Services for the above referenced project under terms of the Agreement dated June 17, 2003.

Section IV Basic Services (4.1.1)

Total Fee for Basic Services = \$2,400/per home  
CDBG Project Management


Home #6 is 85% complete	\$2,040.00
(5-homes 100% complete)	

Section IV Reimbursable (4.2)

travel - \$	0.00	
telephone- \$	0.00	
supplies - \$	0.00	
postage - \$	0.00	
printing - \$	0.00	
P.H./meeting/notice -\$	0.00	\$ 0.00

TOTAL DUE \$ 2,040.00

Thank you,

  
Timothy J Ostroski  
Executive Director



Grantsmanship

Planning

Technical Assistance

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Council Billing Letters



**SOUTHERN IOWA COUNCIL  
OF GOVERNMENTS**

Southern Iowa Development Group, Inc.  
Southern Iowa COG Housing Trust Fund, Inc.

P.O. Box 102  
101 East Montgomery St.  
Creston, Iowa 50801-0102

Telephone 641.782.8491  
Facsimile 641.782.8492  
e-mail SICOG@sicog.com

- David Ferris, Chairperson  
Taylor County
- J. R. Cornett, Vice-Chair  
Decatur County
- Mark Olive, Secretary  
Adams County
- Mike King, Treasurer  
Union County
- Amy Lampe  
Clarke County
- Steve Raymond  
Madison County
- Royce Dredge  
Ringgold County
- Shirley Ross  
Fontanelle, Orient  
Bridgewater & Adair
- Bill Morain  
Private Representative
- Pat Nehring  
Private Representative
- Kathy Timmerman  
Private Representative
- Beth Waddle  
Private Representative
- Jodi Seymour  
Member-At-Large

April 30, 2007

Fred Diehl, Mayor  
City of Osceola  
City Hall, P.O. Box 465  
Osceola, IA 50213

RE: Housing Rehabilitation - 03-HSG-017 (Invoice #4)

Professional Administrative Services for the above referenced project under terms of the Agreement dated June 17, 2003.

Section IV Basic Services (4.1.1)


Total Fee for Basic Services = \$2,400/per home  
**CDBG Lead Administration**

The project is complete \$8,750.00  
(7-homes total with Lead)

Section IV Reimbursable (4.2)

travel -	\$	1,104.43	
telephone-	\$	8.86	
supplies -	\$	15.82	
postage -	\$	32.92	
printing -	\$	319.97	
P.H./meeting/notice-\$		0.00	\$ 530.00

TOTAL DUE \$ 9,280.00

Thank you,  
  
Timothy J. Ostroski  
Executive Director



Grantsmanship

Planning

Technical Assistance



A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Council Billing Letters



**SOUTHERN IOWA COUNCIL  
OF GOVERNMENTS**

Southern Iowa Development Group, Inc.  
Southern Iowa COG Housing Trust Fund, Inc.

P.O. Box 102  
101 East Montgomery St.  
Creston, Iowa 50801-0102

Telephone 641.782.8491  
Facsimile 641.782.8492  
e-mail SICOG@sicog.com

- David Ferris, Chairperson  
Taylor County
- J. R. Cornett, Vice-Chair  
Decatur County
- Mark Olive, Secretary  
Adams County
- Mike King, Treasurer  
Union County
- Amy Lampe  
Clarke County
- Steve Raymond  
Madison County
- Royce Dredge  
Ringgold County
- Shirley Ross  
Fontanelle, Orient  
Bridgewater & Adair
- Bill Morain  
Private Representative
- Tom Nehring  
Private Representative
- Nancy Timmerman  
Private Representative
- Beth Waddle  
Private Representative
- Jodi Seymour  
Member-At-Large

April 30, 2007

Fred Diehl, Mayor  
City of Osceola  
City Hall, P.O. Box 465  
Osceola, IA 50213

RE: Housing Rehabilitation - 03-HSG-017 (Invoice #5)

Professional Administrative Services for the above referenced project under terms of the Agreement dated June 17, 2003.

Section IV Basic Services (4.1.1)

Total Fee for Basic Services = \$2,499/per home  
**CDBG Project Management / Technical Services**

All nine (9) homes are complete - balance due \$8,091.00

Section IV Reimbursable (4.2)

travel - \$	1,044.35	
telephone- \$	88.95	
supplies - \$	171.07	
postage - \$	29.55	
printing - \$	352.14	
P.H./meeting/notice - \$	0.00	\$ 0.00

TOTAL DUE \$ 8,091.00

Thank you,

  
Timothy Ostroski  
Executive Director



Grantsmanship

Planning

Technical Assistance

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Council Billing Letters



**SOUTHERN IOWA COUNCIL  
OF GOVERNMENTS**

Southern Iowa Development Group, Inc.  
Southern Iowa COG Housing Trust Fund, Inc.

P.O. Box 102  
101 East Montgomery St.  
Creston, Iowa 50801-0102

Telephone 641.782.8491  
Facsimile 641.782.8492  
e-mail SICOG@sicog.com

- David Ferris, Chairperson  
Taylor County
- J. R. Cornett, Vice-Chair  
Decatur County
- Mark Olive, Secretary  
Adams County
- Mike King, Treasurer  
Union County
- Amy Lampe  
Clarke County
- Steve Raymond  
Madison County
- Royce Dredge  
Ringgold County
- Shirley Ross  
Fontanelle, Orient  
Bridgewater & Adair
- Bill Morain  
Private Representative
- Pat Nehring  
Private Representative
- Nathy Timmerman  
Private Representative
- Beth Waddle  
Private Representative
- Jodi Seymour  
Member-At-Large

April 30, 2007

Fred Diehl, Mayor  
City of Osceola  
City Hall, P.O. Box 465  
Osceola, IA 50213

RE: Housing Rehabilitation - 03-HSG-017 (Invoice #6)

Professional Administrative Services for the above referenced project under terms of the Agreement dated June 17, 2003.

Section IV Basic Services (4.1.1)

Total Fee for Basic Services = \$19,000  
**Grant Administration**


All nine (9) homes have been completed - balance due \$ 5,400.00

Section IV Reimbursable (4.2)

travel -	\$	197.81	
telephone-	\$	133.81	
supplies -	\$	328.70	
postage -	\$	44.66	
printing -	\$	66.36	
P.H./meeting/notices	-\$	233.75	\$ 465.00

TOTAL DUE \$ 5,865.00

Thank you,

  
Timothy J Ostroski  
Executive Director



Grantsmanship

Planning

Technical Assistance

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Letter from DED to Council



February 5, 2007

Mr. Timothy Ostroski, Executive Director  
Southern Iowa Council of Governments  
101 E. Montgomery  
P.O. Box 102  
Creston, IA 50801

RE: Southern Iowa Council of Governments (SICOG) Administered Housing  
Fund Programs

Dear Tim:

Since November of last year, at the Iowa Department of Economic Development's (IDED's) request, your agency has been including financial support documentation along with all requests for funds from all of the communities administered by, and under sub-recipient agreement with, SICOG.

One area of concern remains. Common to all of these awards are the interest costs associated with SICOG's Line of Credit (LOC), particularly the timing of reimbursements to SICOG's LOC. The IDED has already disallowed interest costs on two of these awards, Orient and Osceola, both due to the timing of reimbursements to SICOG's LOC. The lack of timely reimbursement results in additional interest cost accrual.

In terms of timely payment of award related costs to vendors, the IDED does not recognize any advantage these communities might gain by utilizing the respective sub-recipient agreements that are in place as opposed to the more traditional methods of direct payment of award related costs by our recipients. Any one of these communities can request funds from the IDED on an as-needed basis and pay vendors upon receipt of funds from the IDED. Turnaround time can be as short as three to four weeks. Several of the communities you serve should have the financial capability of paying vendors with their own funds then seeking reimbursement from the IDED. Again, turnaround time can be short.

I am encouraging you to consider terminating the sub-recipient agreements you have in place with all of the communities you serve. Further, through your administrative contracts with these communities, continue to provide those services, but also assist each community in transitioning to one of the methodologies referred to in the above paragraph. I am also recommending that

**IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT**

200 East Grand Avenue, Des Moines, Iowa 50309 USA • Phone: 515.242.4700 • Fax: 515.242.4809 • [www.iowaftechanging.com](http://www.iowaftechanging.com)

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

Letter from DED to Council

you cease incurring expenditures against your LOC. The reason for my recommendations is as follows:

Effective immediately, the IDED is ceasing the payment of all interest costs on all SICOG administered awards. All pending requests for funds from the communities you serve will be processed minus the interest costs amounts sought. For all future requests for funds, interest costs will be deducted from the requested dollar amounts prior to IDED payment.

It is in your best interest to initiate changes that will limit further interest costs incurrence on your LOC.

As always, please feel free to contact me with any questions or comments. I can be reached at (515) 242-4850 or at [terry.vestal@iowalifechanging.com](mailto:terry.vestal@iowalifechanging.com).

Sincerely,



Terry D. Vestal,  
Housing Team Leader

cc: Terry Roberson, Community Development Division Administrator  
Judy Brimm, SICOG  
Dar Nair  
Rita Eble  
Donna Grgurich  
File

A Review of the  
Community Development Block Grant Program  
Administered by the Southern Iowa Council of Governments

E-mail from DED

FW: SICOG Administered Housing Programs

Page 1 of 1

**Jim Cunningham - FW: SICOG Administered Housing Programs**

---

**From:** "Vestal, Terry [IDED]" <Terry.Vestal@iowalifechanging.com>  
**To:** "Cunningham, Jim [AOS]" <Jim.Cunningham@auditor.state.ia.us>  
**Date:** 2/28/2008 11:11 AM  
**Subject:** FW: SICOG Administered Housing Programs

---

-----Original Message-----

**From:** Vestal, Terry [IDED]  
**Sent:** Tuesday, December 04, 2007 1:59 PM  
**To:** OSTROSKI, TIMOTHY; Brimm, Judy  
**Cc:** Roberson, Terry [IDED]; Caggiano, Katie [IDED]; Waddell, Tim [IDED]; Eble, Rita [IDED]; Grgurich, Donna [IDED]; Nair, Darlene [IDED]; Leitch, Harriet [IDED]

**Subject:** SICOG Administered Housing Programs

Tim and Judy,

The IDED is no longer requiring that copies of all of the support documentation be included with (attached to) each / all requests for funds, all open and active CDBG Housing awards administered by SICOG. Simply maintain the support documentation on your end and at the respective community's. Thank you for doing this up to this point.

Also, effective December 1, 2007 and forward, we will begin honoring requests for payment for reasonable interest charges incurred on SICOG's LOC (all of the communities administered by SICOG and that are under sub-recipient agreements with SICOG). The IDED has not been honoring such requests since February 5, 2007. All interest reimbursement charges reflected on requests for funds after December 1, 2007 should of course be "reasonable" interest charges. We continue to encourage SICOG (together with the respective communities you represent) to request funds frequently enough to reduce, or limit, the amount of interest charges on funds disbursed from your LOC, and when funds are received, expended (reimbursing the LOC lender for these interest costs) in a timely manner (i.e., within ten days).

I send this message in email form to expedite this news.