



CITY GRANT TO THE HOUSING FOUNDATION, INC.

AUDIT REPORT #0105

DECEMBER 2000



Copies of this report may be obtained by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@mail.ci.tlh.fl.us).



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MEMORANDUM

To: Mayor and Members of the City Commission
From: Sam M. McCall, City Auditor
Date: December 14, 2000
Subject: Audit Report on City Grant to the Housing Foundation, Inc. (#0105)

We have completed an audit of the City Grant to the Housing Foundation, Inc. (#0105). We submit this report that contains our audit issues and recommended actions and the response from the City Manager. We will periodically review the implementation of recommended actions.

We thank the staff of the Department of Neighborhood and Community Services for their cooperation and assistance during this review. If you have any questions or need a more detailed briefing on this inquiry, please contact me.

Respectfully submitted,

Sam M. McCall
City Auditor

SMM/mbd
attachment

Copy: Members of the Audit Committee
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Kenneth L. Barber, President, The Housing Foundation
Board of Directors, The Housing Foundation
Paula G. Cook, Records Administrator

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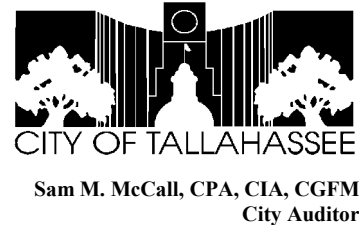
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“City Grant To The Housing Foundation, Inc.”



Report #0105

December 14, 2000

Executive Summary

A lack of controls and funding and staffing limitations at the Housing Foundation, Inc., (Foundation) resulted in the inadequate accounting of City grant funds and in the use of some of those funds for unauthorized purposes. Officials of the now inactive Foundation should reimburse the City for grant funds improperly spent. While the City’s Department of Neighborhood and Community Services overall oversight and monitoring efforts relative to the contract with the Foundation were adequate, additional documentation and contractual requirements should be considered for future grant applicants.

The City Awarded a \$125,000 Grant to the Housing Foundation for Emergency Home Repairs.

The City’s Department of Neighborhood and Community Services (NCS) awarded the Housing Foundation, Inc., (Foundation) a \$125,000 contract for the provision of emergency home repair services. The Foundation was required to provide services to 25 households. To receive payment, the Foundation was required to submit reimbursement requests supported by documentation that contract-eligible expenses had been incurred. Contractual terms also provided that the Foundation was to have its records audited and to submit the resulting audit report to the City.

Because of Continuing Concerns, NCS Instructed the Foundation Not to Start Any New Projects; the Contract Was Not Renewed.

During the contract year, NCS became aware of significant funding and staffing limitations at the Foundation. Efforts were made by NCS to assist the Foundation in resolving those limitations. For example, NCS provided an \$8,000 advance to enable the Foundation to timely pay roofing subcontractors.

Because of continuing concerns, NCS notified the Foundation on March 15, 2000, not to start any new projects. As of that date, NCS had paid a total of \$96,969.17 to the Foundation for services rendered to 19 households. Of that total, \$74,569.17 was intended as reimbursement for project costs and the remaining \$22,400 represented payments to the Foundation for administrative costs. The contract was not renewed.

In March 2000, a Foundation subcontractor complained to NCS that payment was not made for services rendered. NCS brought this complaint to the attention of the City Auditor and requested his assistance. As a result, an audit was conducted. This report provides the results of our review.

Over \$4,900 of City Grant Funds Were Used for Unauthorized Purposes by the Foundation; the Foundation's Controls Were Inadequate and Complete Foundation Records Were Not Made Available.

Complete and adequate accounting records of the Foundation were not available. The Foundation did not have adequate controls to ensure that reimbursement requests were properly supported and only for allowable costs. Additionally, instances were noted where the Foundation used City grant funds for unauthorized purposes. Specifically, some City reimbursements to the Foundation for emergency home repair services were not used to pay the subcontractors/vendors who provided those services. Furthermore, funds advanced to enable the Foundation to timely pay roofing subcontractors were used for other purposes.

Appropriate officials of the now inactive Foundation should reimburse the City for grant funds expended for unauthorized purposes. City funds identified by our audit as improperly spent totaled \$4,944. It appears that an additional amount between \$3,400 and \$6,400 is owed back to the City for unearned administrative payments. To properly close out this contract, Foundation officials should provide for the contractually required audit as requested by NCS.

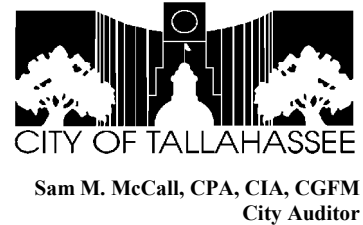
Overall, NCS Conducted Adequate Oversight and Monitoring of the Foundation. However, Assessments Should Be Made for Future Grant Applicants to Determine the Documentation Requirements That Should Be Applied.

Overall, NCS conducted adequate oversight and monitoring of the Foundation. However, if certain documentation requirements had been more stringent and/or enforced, NCS may have timely detected that (1) vendors/subcontractors were not paid for services rendered, although reimbursement for such services had been made to the Foundation, and (2) City grant funds were being used for unauthorized purposes.

To enhance accountability by grantees for future awards, NCS should use predefined factors to assess the financial strength and control environment applicable to grant applicants. In addition to using those assessments in determining which entities should be awarded grants and the amount of the awards, such assessments should be used in determining what documentation should be required from a grantee in order for the City to obtain reasonable assurance that grant funds are properly used. Furthermore, future contracts should provide a clear basis for paying administrative costs to grantees.

We would like to acknowledge the full and complete cooperation and support of NCS staff in this review.

“City Grant To The Housing Foundation, Inc.”



Report #0105

December 14, 2000

Objectives, Scope, and Methodology

The objectives of this audit were to determine whether: (1) the Housing Foundation, Inc., (Foundation) established adequate internal controls to account for and ensure compliance with its City grant; (2) the Foundation owes funds to the City for the unauthorized use of City grant funds; and (3) the City’s Department of Neighborhood and Community Services (NCS) properly administered its contract with the Foundation.

The scope of this audit included a review of available records and bank account activity of the Foundation and records and related correspondence at NCS for the period March 1999 through September 2000.

To address the above objectives, we interviewed administrative staff of NCS and staff of the Foundation and made inquiries of the Foundation’s vendors. We also reviewed records maintained by NCS and records made available by the Foundation. This audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Background

The Tallahassee Housing Foundation, Inc., (THF) was established in 1969 and continuously operated an emergency home repair program until September 1997, at which time it was dissolved. City emergency home repair grants were awarded to THF for part of this 30-year period of operation. Prior to the grant we reviewed, the most recent City grants awarded to THF occurred during the period 1991 through 1994.

On April 29, 1998, THF was reinstated as a registered nonprofit corporation with new staff and a new board of directors. On June 24, 1998, THF changed its name to the Housing Foundation, Inc.

The City Awarded the Foundation a Grant in the Amount of \$125,000 for Emergency Home Repairs to Qualified Households.

On June 12, 1998, the Foundation submitted to the City a written request for a \$250,000 grant under the NCS Emergency Home Repair Program (EHRP). However, the City was only willing to award \$125,000 as this was a pilot project, and there was a desire for the reinstated organization to demonstrate the capacity to adequately administer an emergency home repair program. Accordingly, the Foundation completed another application on November 16, 1998, for a City grant in the amount of \$125,000. The application indicated that, if awarded, the \$125,000 City grant would be used to provide emergency repairs on 25 homes where the households met the program's eligibility requirements.

The Foundation's budget for the Emergency Home Repair Program as shown in the grant application provided for total funds of \$149,850 to provide emergency repairs on 25 homes. Of that total, \$125,000 was to be funded by the City grant and the remaining \$24,850 was to be funded by skilled and unskilled volunteer labor, donated materials, and private donations (donated office space).

NCS approved the application and, on March 22, 1999, executed a contract awarding the Foundation \$125,000 to perform emergency home repairs to 25 eligible households. Funds provided by the City for this grant were part of the State Housing Initiatives Partnership Program (SHIP), a State program for which one of the purposes was to assist counties and municipalities expand production and preservation of affordable housing. The contract provided that \$100,000 of the grant would be used for repair costs, and \$25,000 would be used to support program delivery costs (i.e., Foundation administrative costs). The maximum amount of grant funds that could be used to make repairs for any one home (household) was \$7,500. In order to be eligible, a household (family) had to be at or below 80 percent of the area's designated median income, adjusted

for family size, and own their home. Contract terms also stated that the Foundation was to provide approximately \$994 worth of volunteer labor and materials on each project.

Payments to the Foundation for services rendered and expenses incurred were to be made upon the City's receipt of requests for payments. The requests were to be supported by documentation evidencing that contract-eligible expenses had been incurred. Eligible activities included emergency repairs and accessibility improvements to housing units owned and occupied by low- and moderate-income persons. Typical repairs that could be paid from the contracted funds included:

- plumbing repairs
- structural repairs where hazards exist
- electrical repairs where hazards exist
- roof repair/replacement
- accessibility improvements (i.e., wheel chair ramps, hand railings, doorway widening)

All repairs were to be performed by approved licensed subcontractors under the supervision and direction of the Foundation's in-house Construction Director (a licensed general contractor). All emergency home repairs and Foundation services reimbursable under the contract were to begin on or between the dates of March 24, 1999, and March 23, 2000.

The contract required the Foundation to submit monthly written reports to NCS addressing advances and expenditures, clients served, and narrative information. That information was to be reported using forms prescribed and supplied by the City. The Foundation was also required by the contract to maintain records, documents, and other evidence sufficient to properly reflect the receipt and expenditure of City grant funds. Upon completion of the contracted services, the Foundation was to have its records

audited and the resulting independent audit report submitted to the City within six months of the end of the contract period.

*The City Advanced
\$8,000 to the
Foundation to
Enable Timely
Payments to Roofing
Subcontractors.*

During the initial part of the contract period, the Foundation indicated to NCS that the City's reimbursement process did not allow for the Foundation to timely pay subcontractors performing roofing repairs/replacements on eligible households. Specifically, the Foundation stated that the roofers demanded payment for their services prior to the date that the Foundation received the corresponding reimbursement from the City. To address this concern, the City advanced \$8,000 to the Foundation on May 3, 1999. Pursuant to NCS staff, the verbal agreement regarding this advance provided that the \$8,000 would be withheld from the funds due for the Foundation's last projects.

*The Foundation
Experienced Staffing
and Funding
Limitations That
Hindered Its Ability to
Provide the
Contracted Services.*

An NCS monitoring report, dated December 28, 1999, and based on an on-site visit conducted November 17, 1999, contained a statement that suggested that the Foundation was experiencing staffing and funding limitations. This statement was corroborated by copies of internal correspondence between Foundation staff and members of the Foundation's board of directors, which indicated the Foundation was incurring significant problems that hindered its ability to provide the contracted services. This internal correspondence, dated December 1999 and March 2000, indicated the following:

- Adequate funds were not available to meet the Foundation's obligation to pay vendors for project services and to pay Foundation administrative costs.
- There was significant internal strife between the Foundation's executive director and president of the board of directors, including accusations regarding:
 - inappropriate use of City grant funds
 - violations of financial policies
 - failure to pay vendors for work performed
 - unauthorized alteration of a Foundation check

Near the End of the Contract Period the City Instructed the Foundation Not to Start Any New Projects; the Contract Was Not Renewed.

NCS notified the Foundation through written correspondence, dated March 15, 2000 (eight days prior to the end of the contract period), that no new household projects should be initiated and that the City would assume completion of the remaining projects slated under the contract. As of March 15, 2000, NCS had paid the Foundation grant funds totaling \$96,969.17 for 19 of the planned 25 projects. No additional funds were paid to the Foundation subsequent to that date. Costs totaling \$8,018.20 incurred by vendors/subcontractors for on-going projects subsequent to March 15, 2000, were paid directly by NCS.

A Foundation Vendor Complained That Payment Was Not Received for Services Rendered.

On March 21, 2000, a vendor of the Foundation complained to NCS that payment had not been received from the Foundation for emergency home repair services rendered. That complaint was shared by NCS with the City Auditor’s Office.

On August 14, 2000, the Foundation was placed on inactive status with the Florida Department of State. Based on discussions with Florida Department of State officials, the inactive status resulted from failure of the Foundation to file an annual report.

***Findings
Relating to
the
Foundation’s
Controls and
Use of Grant
Funds***

Because of the vendor complaint and the concerns expressed by NCS staff, we reviewed records at NCS and available records from the Foundation, made inquiries of the Foundation’s vendors, and interviewed both NCS and Foundation staff. Our review disclosed that deficiencies existed in the Foundation’s system of internal control and that grant funds provided to the Foundation were not always expended on allowable grant activities. These issues are discussed below.

Complete Records Were Not Available; Some Records Were Not in the Custody of the Foundation.

Complete and adequate accounting records documenting the Foundation’s financial activity relating to the City grant were not made available. Furthermore, at the time of our fieldwork, some of the Foundation’s records were in the custody of a former Foundation employee. As noted above, contract terms required the Foundation to maintain records, documents, and other

evidence sufficient to properly reflect the receipt and expenditure of City grant funds. Such records would include, but not be limited to, general and subsidiary ledgers, bank statements and related check registers, and vendor/subcontractor invoices documenting the purposes for which expenditures were made.

In response to our verbal request in March 2000, the President of the Foundation's board of directors provided the City Auditor's Office copies of the Foundation's check register, bank statements, and cancelled checks covering the period May 30, 1998, through April 3, 2000. Although requested on several occasions in August, September, and October 2000, copies of the Foundation's accounting records (i.e., general and subsidiary ledgers) and copies of the check register, bank statements, and cancelled checks for the period subsequent to April 3, 2000, were not provided by the Foundation.

Additionally, in response to our interview in August 2000, the President of the Foundation's board of directors indicated that some records relating to the grant, including vendor/subcontractor invoices supporting services rendered on Foundation projects, were in the custody of the Foundation's former in-house Construction Director. NCS staff stated that in an October 1999 meeting with the Foundation's board of directors, the board had verbally indicated that the in-house Construction Director would cease to serve as an employee of the Foundation; however, he would commence providing services to the Foundation in a contractor relationship. Notwithstanding his continuing relationship with the Foundation, it did not appear appropriate for such records to be in the custody of a former employee.

Complete accounting records adequately reflecting the receipt and use of City grant funds are necessary for the Foundation to demonstrate that such funds were used only for authorized grant purposes. Also, such records are necessary to allow an adequate and complete post audit by an independent public accountant or other authorized party.

Controls Were Not Adequate to Ensure Reimbursement Requests Submitted to the City Were Proper.

Instances were noted where the Foundation did not demonstrate that adequate controls existed to ensure that reimbursement requests submitted to NCS were properly supported and only for allowable costs. These instances are described in the following paragraphs.

The initial request for reimbursement of contract expenses was submitted to NCS by the Foundation on April 14, 1999. That request was for contract expenses totaling \$10,031 that related to two projects. That request was insufficient to demonstrate that the costs had been incurred or were otherwise reasonable and allowable. As a result, the Foundation was instructed by NCS to submit documentation that would support the reimbursement request. The Foundation submitted documentation on April 19, 1999. After NCS determined that documentation was still insufficient, NCS staff met with Foundation staff to explain the deficiencies regarding the reimbursement request. NCS did not approve payments for those projects until the Foundation provided reasonable support and explanation.

Costs claimed on the Foundation's initial reimbursement request were questioned by NCS staff as the result of the following:

- No support, such as vendor invoices, was attached with the initial request received on April 14, 1999.
- Costs on the initial request were claimed for services that NCS staff determined had not been performed/completed. (For example, reimbursement in the amount of \$3,800 was requested for roofing services on one project when NCS site visits showed that the services had not been completed.)
- Some vendor invoices submitted on April 19, 1999, as support for materials used on the projects had the dates marked out. (In these instances it was not clear that the materials were used for the projects to which the reimbursement pertained.)
- Vendor invoices submitted on April 19, 1999, did not itemize the services rendered or material used on the projects.

Furthermore, the Foundation was awarded another \$7,500 grant by NCS on February 1, 2000, for the provision of emergency home repairs to low-income city residents. That contract was to be funded from the City's General Revenue funds. In the initial reimbursement request under that grant, the Foundation claimed reimbursement for costs totaling \$2,089.73. Of that amount, it appeared that \$1,300 was for services (flooring and replacement of doors) that had already been claimed and reimbursed under the Emergency Home Repair Program (SHIP funded) Grant. Because of that and other concerns regarding the Foundation's operations, some of which are addressed in the background section of this report, NCS declined payment and terminated the \$7,500 contract effective April 18, 2000.

*Grant Funds
Were Used for
Unauthorized
Purposes.*

Grant funds paid to the Foundation as reimbursement for vendor services were not used for authorized purposes and are owed to the City. As noted in the background section of this report, a vendor (roofing contractor) of the Foundation reported to NCS that payment was not received from the Foundation for services rendered under the Emergency Home Repair Program. Our inquiry into this matter disclosed that the Foundation had billed NCS and received reimbursement of \$2,094 for the services that the vendor alleged were not paid by the Foundation. However, the vendor provided an invoice showing that the Foundation was only billed \$1,040.25 for those services. Our discussions with the Foundation's former in-house Construction Director and the vendor indicated that the vendor had prepared two invoices for this job; one to reflect the total project cost including donated labor (i.e., \$2,094), and the other to reflect only the amount for which reimbursement was requested from the Foundation (i.e., \$1,040.25). Available Foundation records did not substantiate that the vendor was paid for the services. On the presumption that the vendor was not paid, the \$2,094 reimbursement is not substantiated as used by the Foundation for authorized purposes. Accordingly, the Foundation owes the City \$2,094.

Because of this vendor's allegation, we made inquiries to an additional ten of the Foundation's vendors (subcontractors). The vendors for this procedure were selected from the documentation (vendor invoices) supporting the reimbursement requests submitted by the Foundation to the City. For each selected vendor, NCS had reimbursed the Foundation for the requested amount. The vendors' responses to our inquiries indicated the following:

- One vendor was not paid by the Foundation for termite treatments provided on two projects. The two invoices totaled \$850 (\$400 and \$450, respectively).
- One vendor billed the Foundation in three invoices a total of \$5,610.50 for floor replacements on one project; however, the vendor was paid only \$5,010.50, or \$600 less than the amount billed.
- One vendor billed the Foundation \$2,400 for installation of a heating system on one project; however, the Foundation only paid \$1,000 on that invoice, or \$1,400 less than the amount billed.

In summary, four vendors indicated that a total of \$3,890.25 due from the Foundation had not been paid. Except for one instance, our review of accounting records and bank statements made available by the Foundation did not substantiate that the vendors had been paid for the noted services. (In the one instance, the Foundation's check register did show a payment of one of the invoices for termite services in the amount of \$400. However, the bank statements did not show that the applicable check cleared the Foundation's bank account.)

As noted above, the Foundation had requested and received reimbursement from the City for the noted costs. In the event the City grant funds paid to the Foundation for the noted services are not paid to the four vendors, and if the City is not reimbursed for the instance where the Foundation was paid based on the incorrect invoice, the Foundation will owe the City a total of \$4,944.

*City Funds Advanced
to Enable Timely
Payment to Roofing
Subcontractors Were
Used for Other
Purposes.*

The \$8,000 advance provided to the Foundation to enable timely payment to roofing contractors was used for other purposes. A portion of that advance is owed back to the City, as all of the advanced funds were not documented as being used for authorized grant purposes. Staff of NCS determined in a meeting with the Foundation's board of directors on October 20, 1999, that the advanced funds were being used to pay the Foundation's administrative costs and not to ensure that roofing contractors were timely paid. As noted in the background section, the contract provided \$25,000 for the Foundation's administrative costs. To obtain these administrative funds over the life of the grant, the Foundation had been billing the City \$1,000 upon completion of each project (i.e., 25 required projects). Upon the determination that the advanced funds were also being used to pay administrative costs (i.e., in addition to the \$1,000 per project reimbursements), NCS revised the administrative cost reimbursement process. The revised process allowed the Foundation to bill and receive only \$200 for administrative costs on each subsequently completed project. Based on the projects not completed/initiated as of that date, that process would have ensured that the entire \$8,000 advance would be applied to the \$25,000 administrative costs, to which the Foundation would have been entitled if emergency home repair services were completed on 25 eligible homes.

As noted in the background section, on March 15, 2000, NCS notified the Foundation that no new projects were to be initiated. No more payments were made to the Foundation after that date. Also, the contract was not renewed or extended. As of March 15, 2000, NCS records show that the Foundation had completed 16 projects and initiated, but not completed, an additional 3 projects. Based on the premise that the Foundation was entitled to administrative costs at the rate of \$1,000 per completed project, the Foundation would be entitled to \$16,000 for the completed projects. Furthermore, as work had been initiated on an additional 3 projects at the time of NCS' notification, it appears that the Foundation would be entitled to some reimbursement for administrative costs

for those projects. The amount to which the Foundation would be entitled for those 3 projects would have to be negotiated between NCS and Foundation officials. However, based on the reimbursement rate of \$1,000 per completed project, it appears that negotiated amount should not exceed \$3,000 for those 3 projects. Accordingly, it appears that the Foundation was entitled to an amount between \$16,000 and \$19,000 for administrative costs.

As of the end of our fieldwork, NCS records indicate that the Foundation was paid \$22,400 for administrative costs. This included payments totaling \$14,400 for 16 completed projects (14 at \$1,000 per project under the initial process and 2 at \$200 per project under the revised process) and the \$8,000 advance. Based on the amount to which it appears that the Foundation was entitled (between \$16,000 and \$19,000), the City would be owed an amount between \$3,400 and \$6,400. However, as noted in our finding under NCS' contract administration regarding the lack of a clear contractual basis for reimbursing the Foundation for administrative costs, NCS and Foundation officials must negotiate the final amount owed back to the City.

Issues Relating to NCS' Administration of the Foundation Contract

*Except for Certain
Documentation and
Contractual
Requirements, NCS'
Oversight and
Monitoring of the
Foundation Was
Adequate.*

Because of the noted circumstances and issues pertaining to the Foundation, we reviewed NCS' administration of the contract to ascertain whether deficiencies occurred in the City's oversight and monitoring process and whether improvements in that process should be considered for future contracts.

Except as described in the following findings, our review showed that NCS conducted adequate oversight and monitoring of the Foundation. For example:

- Because the Foundation was recently reorganized under new staff and had not demonstrated the capacity to adequately administer an emergency home repair program, NCS awarded \$125,000 instead of \$250,000 that was initially requested by the Foundation.
- NCS staff provided guidance to the Foundation upon receipt of inadequate reimbursement requests and did not pay such

requests until the Foundation submitted proper and reasonable documentation.

- During the early phases of the contract period, NCS staff provided instruction and guidance to the Foundation regarding obtaining bids for subcontractors, preparing work write-ups, and determining the type of work that should be considered volunteer labor.
- NCS staff conducted site visits to projects to confirm that Emergency Home Repair Program services were being provided.
- NCS staff conducted an on-site monitoring visit at the Foundation in November 1999 and issued a report to the Foundation based on that visit which provided recommendations for improving operations.
- Upon determination that the \$8,000 advance was not being used for the intended purpose, NCS revised the reimbursement process to immediately withhold a portion of the advanced funds from the administrative funds due on each remaining project.
- NCS staff met with the Foundation's board of directors on several occasions to discuss issues regarding the contract.
- After continuing evidence of administrative problems within the Foundation, NCS notified the Foundation that no new projects should be started and did not extend or renew the contract.
- Upon determination that funds paid to the Foundation had not been used to pay a vendor for services rendered, NCS notified the City Auditor's Office.
- In a letter dated September 5, 2000, NCS notified the President of the Foundation's board of directors of the contractual requirement for an audit and that the resulting audit report was due the City within six months of the end of the contract period.

Additional Information Should Have Been Required and Obtained from the Foundation That May Have Enabled a More Timely Determination That Grant Funds Had Been Used for Unauthorized Purposes.

Contrary to contractual provisions, NCS did not require the Foundation to submit monthly written reports addressing advances and expenditures nor supply prescribed forms to the Foundation for the reporting of such information. We acknowledge the efforts of NCS to foster the provision of services to citizens through nonprofit organizations and commend NCS for the actions noted above. However, given (1) the questionable nature of the initial support submitted with some reimbursement requests, (2) the fact that the Foundation was a recently reestablished nonprofit organization with new staff and a new board of directors, and (3) the Foundation's application indicating that 83 percent (\$125,000) of the Emergency Home Repair Program's operations would be funded from the City grant and the remaining 17 percent (\$24,850) would be funded from donations and volunteer labor, documentation requirements in addition to detailed project reimbursement requests may have been warranted.

For example, receipt and review of the following from the Foundation may have enabled NCS staff to timely determine that vendors were not paid for services rendered, although reimbursement for such services had been made by NCS; and, to timely determine whether City grant funds were being used for unauthorized purposes:

- A schedule identifying the specific costs (type and amount) comprising the administrative costs budgeted for the Emergency Home Repair Program, including what portion that amount represented of the entity's total administrative costs. For example, one cost type would be staff salary. For that cost type, all individual staff and their respective salaries should be identified, as well as the portion of their salaries budgeted to be funded from the City grant.
- Documentation, with explanations as needed, to show the planned funding sources for the entity's administrative costs that would not be funded by the City grant. Continuing with the above example, documentation should be provided showing the planned funding sources for the portion of staff salaries not budgeted to be paid from the City grant.

- Periodic (e.g., monthly) cost reports showing actual costs incurred (both administrative and project costs), and the sources (e.g., City grant, donations, other) used to pay those costs.

We recognize that the decision as to what specific documentation should be required for a contract involves professional judgment. In making such judgments, the following factors should be considered:

- prior experience with the contracted entity
- the entity’s time in existence (age) and experience with the contracted activity
- the size and diversity of the entity’s operations/programs
- the amount and diversity of the entity’s funding sources

The Contract With the Foundation Did Not Provide a Clear Basis as to How the Foundation Was to Be Paid for Administrative Costs.

The contract with the Foundation did not provide a clear basis for payment by NCS to the Foundation for administrative costs.

As noted in our report comments addressing the \$8,000 advanced to the Foundation to enable timely payment to roofing contractors, the Foundation requested reimbursement for administrative costs at the rate of \$1,000 per completed home. Those amounts were paid to the Foundation by NCS. As that practice would provide total payments of \$25,000 to the Foundation after completion of the required 25 projects (homes), that process appeared reasonable. However, that payment process was not established by contractual terms and conditions.

Based on the reimbursement process used, the Foundation appears to owe the City an amount between \$3,400 and \$6,400. However, the lack of contractual provisions specifying the basis that payment would be made by NCS for Foundation administrative costs will require the City to negotiate the amounts owed by the Foundation for “unearned” administrative payments.

Recommendations for the Foundation and NCS

Based on our findings resulting from our review of available records and interviews of NCS and Foundation staff, we recommend that certain actions be taken to provide for the identification of and reimbursement to the City for improperly used grant funds, to improve accountability of grant funds, and to ensure that grant funds

are used only for authorized purposes. Our recommendations are presented below:

*Recommended
Actions for the
Foundation.*

NCS should consult with the City Attorney in identifying an appropriate course of action that would require officials of the Foundation (currently an inactive organization) to:

- Reimburse the City for the grant funds provided and not used for the authorized and intended purposes. This includes (1) funds in the amount of \$4,944 reimbursed to the Foundation for project costs that were not used to pay applicable vendors and subcontractors for goods/services provided, and (2) funds advanced to enable the timely payment to roofing subcontractors that were instead used for unauthorized purposes. As noted in the related audit finding, that latter amount would have to be negotiated by NCS and Foundation officials but would appear to be an amount between \$3,400 and \$6,400.
- Obtain all Foundation records and provide the contractually required audit as requested by NCS. Should such an audit identify additional grant funds expended for unauthorized purposes, the City should be appropriately reimbursed.

*Recommended
Actions for NCS
to Enhance
Accountability in
Future Contracts.*

To provide enhanced accountability of grant funds in future contracts, NCS should assess the circumstances applicable to a potential grantee in determining what documentation should be required. Examples of factors that should be considered, as specified above in our related audit finding, are (1) prior experience with the entity, (2) the entity's time in existence and experience with the contracted activity, (3) the size and diversity of the entity's operations/programs, and (4) the amount and diversity of the entity's funding sources.

Documentation requirements that should be considered, which are also specified in the related audit finding, include (1) detailed budgets that specify the types and funding sources for the entity's planned administrative and program costs, for both the contracted

activity and the overall entity and (2) periodic (monthly) cost reports that show actual administrative and program costs incurred for the contracted activity and the sources (e.g., City grant, donations, other) used to pay those costs.

Conclusion

A lack of controls and apparent staffing and funding limitations resulted in the inadequate accounting of City grant funds by the Foundation and in the use of City grant funds for unauthorized purposes. The overall oversight and monitoring efforts of NCS appeared appropriate and adequate under the circumstances. However, we identified areas where improvements can be made by NCS to enhance accountability and the desired level of assurances in future grant contracts. We would like to acknowledge the full and complete cooperation and support of NCS staff in this review.

***Response
from
Appointed
Official***

City Manager:

I have reviewed the audit report in detail and found the report to be balanced and fair. I appreciate the recommendations concerning future contract administration and will discuss these recommendations with the appropriate Neighborhood and Community Services staff.

Copies of this audit report may be obtained by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@mail.ci.tlh.fl.us).

Audit conducted by:
T. Bert Fletcher, CPA, Audit Manager
Sam M. McCall, CPA, CIA, CGFM, City Auditor

***Exhibit 1 –
Chronology of
Contract
Events***

The following provides a chronology of events relating to the contract with the Foundation:

September 1997	Former Tallahassee Housing Foundation (THF) ceases operations.
April 1998	THF reinstated as an active entity under new staff and board of directors.
June 1998	THF changes its name to the Housing Foundation, Inc. (Foundation).
June 1998	The Foundation applies for but is denied a \$250,000 Emergency Home Repair Program (EHRP) grant from NCS.
November 1998	The Foundation reapplies for a \$125,000 EHRP grant from NCS.
March 1999	NCS executes a \$125,000 contract with the Foundation to provide EHRP services to 25 qualified households.
April 1999	The Foundation submits its initial reimbursement request for services rendered. Because of inadequate support, revisions and additional support is required prior to approval of payment by NCS.
May 1999	As part of the initial reimbursement to the Foundation, NCS includes an \$8,000 advance to enable the Foundation to timely pay roofing subcontractors.
May 1999 through February 2000	Sixteen payments totaling \$96,969.17 are made to the Foundation under the EHRP contract.
August through September 1999	Correspondence exchanged between NCS and the Foundation whereby the Foundation acknowledged cash flow problems.
October 1999	NCS determines that the \$8,000 advance is being used to pay administrative costs and not to ensure timely payment to roofing subcontractors.
October 1999	The Foundation's in-house Construction Director resigns but commences to provide EHRP services as a subcontractor.
November 1999	NCS conducts an on-site monitoring of the Foundation's operations.
December 1999	NCS issues a monitoring report that (1) addresses plans to apply the \$8,000 advance to subsequent administrative costs of the

	Foundation and (2) notes concerns regarding Foundation staffing and funding limitations and the Foundation's capacity to provide the contracted level of services.
December 1999 through March 2000	Correspondence between Foundation staff and the President of the Foundation's board of directors indicating lack of adequate funds to pay vendors/subcontractors and significant internal strife, including accusations regarding inappropriate use of City grant funds, violations of financial policy, and the unauthorized alteration of a Foundation check.
February 2000	The Foundation's President of the board of directors sends a letter to NCS indicating that he would now handle the EHRP operations due to the lack of funding to pay Foundation staff salary and wages.
March 2000	Letter sent from NCS instructing the Foundation not to initiate any new projects under the City EHRP contract.
March 2000	A roofing subcontractor complains to NCS that payment from the Foundation had not been received for services rendered in January 2000. NCS determines (1) that the City had already reimbursed the Foundation for those services, and (2) the invoice submitted by the Foundation as support for that reimbursement is twice as much as the invoice provided by the roofing subcontractor in his complaint.
March 2000	NCS requested assistance from the City Auditor's Office regarding the roofing subcontractor's complaint and related questionable payments to the Foundation.
April 2000	NCS terminates the \$7,500 general revenue funded City grant with the Foundation because of concerns regarding the Foundation's operations. No funds are paid to the Foundation under this contract.
August 2000	The Foundation is administratively dissolved by the Department of State, as the required annual report is not filed.
September 2000	A letter is sent from NCS to the President of the Foundation's board of directors requesting the contractually required audit report by the designated due date.

