

CDBG Contract Condition

2/26/92

MEMORANDUM FOR: Raymond A. Harris, Regional Administrator- Regional Housing Commissioner, 4C

ATTENTION: James T. Chaplin, Manager Jacksonville Office, 4.6S

FROM: Anna Kondratas, Assistant Secretary for Community Planning and Development, C

**SUBJECT: Community Development Block Grant (CDBG) Program
Fiscal Year (FY) 1991 Contract Condition
City of Cocoa, Florida
Grant No. B-91-MC-12-0003**

In your memorandum dated August 22, 1991, you recommended that a grant condition be placed on the FY 1991 CDBG grant for the City of Cocoa, Florida, because of serious deficiencies in the administration of its CDBG program. The proposed condition was designed to correct serious, recurring, and unaddressed issues concerning timeliness, financial management, audit findings, and subrecipient monitoring. Because of the City's continual turnover in staff which ultimately contributed to these problems, you recommended that the grant condition require the City to contract with another entity for the administration of its program for Fiscal Year 1991. We apologize for the delay in responding, however, we found it necessary to request additional documentation beyond what was submitted with the original request to determine the appropriate remedy to be pursued. Notice 91-10 requires certain documentation to be submitted, sufficient for Headquarters to take action. Any additional submittal by a grantee or any other action taken by the Field Office that may affect the status of the original request should also be brought to Headquarters' attention immediately. I ask that you have your staff review future requests to see that they meet these requirements prior to submission, so that we may avoid unnecessary delays in reaching a conclusion on any future sanction cases.

We have reviewed the monitoring letters covering FY's 1989 and 1990 and other supportive documentation submitted October 2, 24, and 25, November 18, and December 6, 1991, from the Jacksonville Office and the Atlanta Regional Office. We have determined that there is sufficient evidence to justify imposing a special contract condition on the City of Cocoa to address the City's deficient financial management systems and procedures. There is not sufficient evidence at this time to require the City to contract with another entity to administer its CDBG program, or to impose conditions for timeliness or subrecipient management.

Timeliness

As of June 20-21, 1991, the City of Cocoa's undisbursed line-of-credit(LOC)balance was \$545.683 or 2.4 grant years, which is significantly higher than the 1.5 standard established at 24 CFR 570.902(a)(1)(i). On July 9, 1991, the City was requested to submit a workout plan. This plan was to include a schedule for funds usage and implementation of specific activities. On October 31, 1991, the City submitted a

proposed CDBG expenditure plan for the period October 1, 1991 through September 30, 1992, which was accepted by the Field Office on November 14, 1991 with the provision that the Field Office would monitor the City's progress through status reports and on-site monitoring. Based on the expenditure plan, the City is planning to disburse all of the current outstanding balance in the LOC, plus half of its 1991 grant by September 30, 1992.

We note that the City currently has \$358,506.18, which is equivalent to 1.58 times its 1990 grant amount, and requested a draw of \$134,190.78 on January 14, 1992, which would leave the City with a remaining balance of \$224,315.40. If approved by the Field Office, the City will have less than 1.0 times the 1990 grant amount in its LOC, and will be in compliance with the regulation. If the City is not substantially in compliance with the 1.5 standard within 60 days prior to the end of its 1991 program year, you may consider requesting a contract condition for the 1992 grant.

Financial Management Systems

On February 11, 1991, the Jacksonville Office advised the City that its financial management systems were not in compliance with 24 CFR 85.20 and 24 CFR 570.506. Records are not maintained by City staff to show amounts of funds budgeted, obligated, and expended for individual activities. This has resulted, among other things, in the Grantee Performance Report being revised five times due to the City's inability to accurately determine expenditures, funds obligated, and unexpended amounts by activity. In September 1990, the Jacksonville Office imposed restrictions on the City's LOC. Again on July 9, 1991, the City was notified that the restriction on the LOC would remain until such time as the City's financial management systems are adequate to safeguard and accurately account for CDBG funds. In addition, the City has not followed through to correct all deficiencies in its audit report for the year ended September 30, 1989. The City had agreed to establish fixed asset records and to perform a physical inventory of its fixed assets, to develop an Accounting Procedures Manual, and to cancel improper repurchase agreements with a bank. The City stated in its October 31, 1991, letter that it planned to retain the accounting firm which performs the City's annual audit to prepare the Accounting Procedures Manual, and that it would be completed by mid-January 1992. The Field Office gave the City until January 31, 1992 for completion of the manual. The City's most recent letter dated January 7, 1992, now states that the City has engaged the services of Berman, Shapiro, Crawford and Co., CPAs to prepare the manual, but no dates for completion of the initial draft or final product were stated. We learned also that the physical property inventory that was to be completed by November 30, 1991 has not been completed. On January 7, 1992, the City submitted to the Field Office a computer print-out of fixed assets owned by the City. The City stated that the listing was not complete. Again, this listing has not been reconciled to the City's accounting records.

Because actions taken to date have not been successful in closing these findings and documenting the City's financial management systems are adequate to safeguard and accurately account for CDBG funds, you are hereby authorized to impose the attached grant condition on the City's FY 1991 grant.

Subrecipient Management

The finding on subrecipient management made on June 9, 1991, concerning the City's failure to monitor subrecipients, was closed by your office on November 14, 1991. If the City does not follow through on its

promised actions during this 1991 program year, you should submit a request for contract condition for the 1992 grant by July 31, 1992.

If you have any questions concerning these grant conditions for the City of Cocoa, please contact the Entitlement Communities Division at FTS 8-458-1577.

Cocoa, Florida FY 1991 Special Contract Condition

Pursuant to Section 104(e) of the Housing and Community Development Act of 1974, as amended, HUD has reviewed the performance of the City of Cocoa (City) in carrying out its Community Development Block Grant (CDBG) Program. The Department has determined, in accordance with 24 CFR 570.901, that the City has failed to carry out its program in compliance with the financial management standards at 24 CCR 85.20 pertaining to financial reporting, accounting records, internal control and cash management, and that the City has not complied with the recordkeeping requirements at 24 CFR 570.506(a) and (h).

Therefore, notwithstanding any other provisions of this Grant Agreement, and pursuant to 24 CFR 570.304(d), the City's grant is conditioned as follows:

1. The City must establish accounting records that provide accurate and current financial information on the CDBG program. To accomplish this, the City must develop and implement an accounting procedures manual acceptable to HUD.
2. The City must develop and implement a system to record all fixed assets. The City must also develop and implement a system to conduct a physical inventory of assets.
3. The City must take action to cancel improper repurchase agreements as cited in the audit report for the period ending September 30, 1989.

All of these activities must be completed to the satisfaction of HUD by June 30, 1992. Failure to comply with this grant condition shall be cause for HUD to reduce the FY 1991 grant as of June 30, 1992, by an appropriate amount, up to the full amount of the 1991 grant, pursuant to 24 CFR 570.911.