

OFFICE OF AUDITS & ADVISORY SERVICES



FUNDING AND CLAIM PROCESS FOR THE CDBG PROJECTS AUDIT

FINAL REPORT

Chief of Audits: Juan R. Perez
Audit Manager: Laura R. Flores, CIA, CFE, CGAP
Auditor II: Ida Miclat, CPA

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

April 28, 2016

TO: April Heinze, Director
Department of General Services

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: FUNDING AND CLAIM PROCESS FOR THE CDBG PROJECTS AUDIT

Enclosed is our report on the Funding and Claim Process for the CDBG Projects Audit. We have reviewed your response to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Ida Miclat at (858) 694-2050.

If you have any questions, please contact me at (858) 495-5661.

A handwritten signature in black ink, appearing to read "Juan R. Perez".

JUAN R. PEREZ
Chief of Audits

AUD: IM:aps

Enclosure

c: April Heinze, Deputy Chief Administrative Officer, Community Services Group
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Brian Hagerty, Group Finance Director, Community Services Group

INTRODUCTION

Audit Objective The Office of Audits & Advisory Services (OAAS) completed an audit of the Funding and Claim Process for the Community Development Block Grant (CDBG) Projects. The objective of the audit was to evaluate departmental internal controls and compliance with claim process for CDBG funded projects.

Background The CDBG is a federal block grant program that provides communities with resources to address a wide range of unique community development needs. The Department of Housing and Urban Development (HUD) provides guidance on the CDBG program. The County Department of Housing and Community Development (HCD) makes CDBG funds available for a variety of community projects. These projects benefit lower income residents and communities in San Diego County.

The Department of General Services (DGS) is a recipient of federal CDBG funds through HCD. DGS plans and implements capital improvements, administers major maintenance projects, and provides project support. A Memorandum of Understanding (MOU) between HCD and DGS is created for each project to establish the working parameters for activities implemented with CDBG program funds.

CDBG funded activities have been incorporated into HCD's Annual Funding Plan reviewed and approved by HUD. The annual plan requires HCD and all its contractors to meet certain obligations to the federal government including environmental review, anti-discrimination, reporting of accomplishments, and timely expenditure of funds.

Audit Scope & Limitations The scope of the audit focused on CDBG projects from FY 2013-14 to current. OAAS selected the following CDBG projects for audit testing:

CDBG Projects Selected for Testing

Project No.	MOU Date	Scope of Work	Project Cost
MX14741	August 6, 2013	Ramona Senior Center floor replacement	\$24,225
MX 14742	August 6, 2013	Shelter Valley emergency standby/backup generator	\$15,400
MX 16703	June 30, 2015	Ramona Senior Center kitchen floor replacement	\$42,673
MX 16718	August 20, 2015	Highland Comm. Center roof, sound proofing, and ADA improvements	\$50,800

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Reviewed laws and regulations applicable to CDBG funded projects.
- Interviewed DGS management and staff regarding management practices for CDBG projects.
- Reviewed Memorandum of Understanding between HCD and DGS for each selected project to identify contract requirements and determine compliance.
- Reviewed the Annual Funding Plan prepared by HCD to determine whether CDBG funded projects were listed in the plan and met one of the CDBG National Objectives.¹
- On a sample basis, conducted specific audit procedures such as inquiry, document inspection, recalculation, reconciliation, and analysis.

AUDIT RESULTS

Summary

Within the scope of the audit, there is reasonable assurance that adequate controls exist over the processing of claims for CDBG funded projects. However, OAAS identified exceptions related to the compliance with specific MOU requirements.

Finding I:**Labor Project Records Are Not Maintained in Project Files**

The MOU between HCD and DGS requires compliance with requirements of the current and most up to date version of the Davis Bacon Labor Standards Regulations set forth in 24 CFR 570.603 (Part 570 CDBG Labor Standards²) and California Code Section 1771 (Prevailing Wage Requirements³). Such compliance shall include, but not limited to, adhering to procedures set forth in the regulations and maintaining pertinent records. Based on a review of selected sample of CDBG projects, OAAS found the following:

- Labor records such as payroll forms were not maintained in the project files.
- A required interview form for one of the projects was not in the file.
- The debarment and suspension certification for one project was not in the file.

¹ HUD requires that CDBG funded activity must meet one of three named national objectives identified as: Benefiting Low and Moderate Income Persons; Preventing or Eliminating Slums or Blight; and Meeting Urgent Needs.

² Part 570.603 contains labor standards that apply to non-volunteer labor financed in whole or in part with CDBG funds.

³ Labor Code Section 1771 requires that general prevailing rate of per diem wages for work of similar character in the locality in which the public work is performed shall be paid to all workers employed on public works.

According to DGS, management oversight was the reason why these documents were missing.

Failure to submit required reports and missing required documents from the project files, does not only result in non-compliance with contract terms but increases the risk of costs disallowances, withholding funds, or reduced payments from HUD.

Recommendation: DGS management should implement adequate controls to ensure that documents and forms specifically required by CDBG are maintained in the project file.

Finding II: DGS Record Retention Policy Not in Alignment with HCD Records Maintenance Requirement

The MOU between HCD and DGS for project MX 16718 Highland Community Center Improvements specifically requires that all project records and reports shall be maintained for a minimum of five years after submission of Final Consolidated Annual Performance and Evaluation Report by HCD to the HUD. However, in accordance with DGS Record Retention Policy, project files are only retained for four years after project completion.

Failure to maintain records and reports related to CDBG projects in accordance with HCD record retention requirement may result in non-compliance with contract terms and costs may be disallowed.

Recommendation: DGS should update its Record Retention Policy to ensure compliance with HCD requirement to retain CDBG project records and reports for a minimum of five years.

Office of Audits & Advisory Services

C Compliance R Reliability E Effectiveness A Accountability T Transparency E Efficiency

VALUE

DEPARTMENT'S RESPONSE



County of San Diego

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April 25, 2015

RECEIVED

TO: Juan R. Perez
Chief of Audits

FROM: April F. Heinze, Director
Department of General Services

APR 27 2016

OFFICE OF AUDITS &
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: FUNDING AND CLAIM PROCESS FOR THE CDBG PROJECTS AUDIT

Finding I: Labor Project Records Are Not Maintained in Project Files

OAAS Recommendation: DGS management should implement adequate controls to ensure that documents and forms specifically required by CDBG are maintained in the project file.

Action Plan: DGS agrees with the recommendation and will ensure Labor Project Records are maintained in project files. DGS now has a Labor Compliance administrator who is responsible for ensuring labor compliance issues are managed with JOC contracts. In addition, a third party consultant was hired to perform labor compliance reviews for JOC contracts. Lastly, the project managers that are assigned to CDBG projects will be re-trained to ensure compliance with all components of the MOU between DGS and HCD, regardless of contracting methodology (JOC or other).

Planned Completion Date: 4/25/16

Contact Information for Implementation: Rich Grudman, Chief

Finding II: DGS Record Retention Policy Not in Alignment with HCD Records Maintenance Requirement

OAAS Recommendation: DGS should update its Record Retention Policy to ensure compliance with HCD requirement to retain CDBG project records and reports for a minimum of five years.

Action Plan: DGS agrees with the recommendation and will ensure the Records Retention Policy for DGS is updated to account for HCD retention requirements with CDBG projects.

Planned Completion Date: 6/30/17

Contact Information for Implementation: Jerry Benson, Administrative Secretary IV

for 
APRIL F. HEINZE, Director
Department of General Services