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Audit Case Number	2001-AT-1006

TO: Emily Cuby Eberhardt, Director, Community Planning and Development
Division, 4GD

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: City of Hattiesburg, Mississippi
Community Planning and Development Programs
Hattiesburg, Mississippi

We have completed an audit of the City of Hattiesburg, Mississippi's Community Planning and Development Programs (CPD). The audit was initiated in response to a citizen's complaint. Our objectives were to determine whether the City: (1) complied with Federal laws, Department of Housing and Urban Development (HUD) regulations, and other requirements; (2) had adequate controls to comply with the requirements; and (3) carried out its activities in an efficient, effective, and economical manner. Our report presents five findings that detail the City's need for improvement with recommendations for corrective action.

Within 60 days, please give us a status report for each recommendation in the report on: (1) the corrective action taken; (2) the proposed corrective action and a planned implementation date; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued as a result of the audit.

Should you or your staff have any questions, please contact me or Sonya D. Lucas, Assistant District Inspector General for Audit, at (404) 331-3369. We are providing a copy of this report to the City of Hattiesburg.

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Executive Summary

We completed an audit of the City of Hattiesburg's CPD Programs. We reviewed the Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) Programs. We conducted the audit in response to a citizen's complaint. Our objectives of the audit were to determine whether the City: (1) complied with Federal laws, HUD regulations, and other requirements; (2) had adequate controls to comply with the requirements; and (3) carried out its activities in an efficient, effective, and economical manner.

We determined the City did not: (1) ensure funded activities met CDBG national objectives; (2) properly administer its rehabilitation program; (3) follow proper procurement and contracting procedures; (4) follow proper payroll administration procedures; and (5) establish and maintain basic operating systems for proper management of its CDBG and Home Programs.

Our audit disclosed

The City of Hattiesburg spent \$242,000 of CDBG funds on activities that did not address a required national objective. The activities included a road improvement project for \$175,000 and five grants to improve downtown commercial buildings totaling \$67,000. The City did not demonstrate how the projects met a national objective. City Officials transferred funding from planned projects that met national objectives, without supporting the new activities' eligibility. Therefore, the funding may not have best served the interests of low and moderate-income persons as intended.

The City did not ensure that the rehabilitated houses in its program complied with HUD and local health, safety, and building standards. In addition, the City selected one house that was not feasible for its housing program. For the 20 houses inspected, we identified 54 work items that the contractors did not complete and 71 work items that the contractors completed in an unacceptable manner. We also identified 84 code or HUD Housing Quality Standards (HQS) violations that the City did not identify and include in its rehabilitation contracts. Of the 20 houses inspected, 13 involved full rehabilitation and 7 involved emergency repairs (see Appendices B and C). The full rehabilitation deficiencies occurred because the City's inspectors did not identify inferior or incomplete work when performing inspections. The emergency repairs deficiencies occurred because the City did not clearly define an emergency situation, thus repairs were inconsistent. Also, the City did not adequately document the urgency of emergency repairs. The City did not include the code/HQS violations in its

rehabilitation contracts because its inspectors were not adequately trained to perform initial inspections and prepare adequate work write-ups. As a result, the homeowners were not provided decent, safe, and sanitary housing after the rehabilitation work was completed.

The City of Hattiesburg's procurement practices did not comply with Federal procurement and contracting requirements or its own procurement policy. The City improperly procured \$2,916,831 of goods and services without adequately documenting the procurements. The contract deficiencies included: (1) improperly soliciting and awarding contracts (2) awarding sole source procurements; (3) not performing independent cost estimates or cost and price analyses; and (4) repeatedly selecting the same contractor. The deficiencies occurred because the City disregarded requirements and did not properly monitor the CDBG and HOME Programs. As a result, HUD lacked assurance that the City obtained goods and services at the most advantageous terms.

The City did not maintain proper accounting controls over its payroll function. The City used CDBG funds to pay the salaries of an employee who did not provide services to its CDBG Program and four interns whose positions were not included in the CDBG budget. The City did not have written procedures for reviewing and approving payroll costs or documenting personnel decisions. As a result, the City paid \$11,535 for non-related program activities and \$13,019 for unbudgeted costs.

The City did not establish and maintain operating systems to ensure its activities complied with the programs regulations. The City did not correct deficiencies HUD identified during its programs review. Also, the City did not monitor its subrecipients to ensure they implemented adequate systems for financial management. This occurred because the City did not properly manage its programs or have written procedures for monitoring subrecipients to ensure they properly implemented the required financial management systems. As a result of the City's ineffective programs management, there was no assurance that subrecipients properly operated their programs and citizens received the intended programs benefits.

We recommend that HUD require the City to reimburse the CDBG Program for all ineligible costs and unsupported costs, and develop and implement controls and procedures to ensure proper administration of its programs. Also, the City should correct all deficiencies and HQS violations and submit a corrective action plan to correct the deficiencies identified by HUD during its reviews.

We presented our findings to the City and HUD officials during the audit. We provided a copy of the draft report to the City and HUD's Mississippi State Office on June 21, 2001. We discussed the report with the officials at the exit conference on July 6, 2001. The City provided written comments on August 9, 2001. The City's comments are summarized in the findings and included in their entirety as Appendix G.

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Table of Contents

Management Memorandum	i
-----------------------	---

Executive Summary	iii
-------------------	-----

Introduction	1
--------------	---

Findings

1	The City Spent \$242,000 on Activities Not Addressing National CDBG Objectives	3
---	--	---

2	Homes Did Not Meet Standards	9
---	------------------------------	---

3	The City Did Not Follow Proper Procurement Requirements	21
---	---	----

4	Controls Over Payroll Were Inadequate	27
---	---------------------------------------	----

5	Controls Over Programs Needed Improvement	31
---	---	----

Management Controls	35
---------------------	----

Follow-Up On Prior Audits	37
---------------------------	----

Appendices

A	Schedule of Ineligible and Unsupported Costs	39
---	--	----

B	Properties Inspected-Full Rehabilitation Program	41
---	--	----

Table of Contents

C Properties Inspected-Emergency Rehabilitation Program	43
D Inspection Deficiencies for Full Rehabilitation Grants	45
E Inspection Deficiencies for Emergency Rehabilitation Grants	51
F Selected Photographs	53
G Auditee Comments	57
H Distribution	65

Abbreviations

CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
CPD	Community Planning and Development
GFCI	Ground Fault Circuit Interrupter
HOME	HOME Investment Partnership
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management Budget

Introduction

The CDBG Program was established by Title I of the Housing and Community Development Act of 1974 (Public Law 93-383). The program provides grants to States and local governments to aid in the development of viable urban communities. Governments are to use grant funds to provide decent housing and suitable living environments and to expand economic opportunities, principally for persons of low and moderate-income.

To be eligible for funding, every CDBG funded project and activity must meet one of the program's three national objectives. Every activity, except program administration and planning, must:

- Benefit low and moderate-income persons; or
- Aid in preventing or eliminating slums or blight; or
- Address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community.

The HOME Investment Partnership Program was created under Title II of the National Affordable Housing Act of 1990. HOME was designed to strengthen public-private partnerships to expand the supply of decent, safe, sanitary, and affordable housing to low and very low-income families.

The City of Hattiesburg's CPD Programs are administered by the City's Urban Development Department. From 1995 to 2000, the City's CDBG and HOME annual allocations were as follows.

YEAR	CDBG	HOME
1995	\$1,049,000	\$500,000
1996	\$1,084,000	\$404,000
1997	\$1,068,000	\$394,000
1998	\$1,033,000	\$422,000
1999	\$1,038,000	\$455,000
2000	\$1,037,000	\$455,000

The City of Hattiesburg is governed under a Mayor-Council form of government with a councilperson representing the City's five Wards. As a result of the March 2001 election, a new administration had taken over. The Director of the Urban Development Department administers the City's CPD Programs. The City's books and records are maintained at 200 Forest Street, Hattiesburg, Mississippi.

HUD's Mississippi State Office of Community Planning and Development in Jackson, Mississippi, is responsible for overseeing the City's administration of these programs.

Audit Objectives, Scope and Methodology

The focus of our review was to determine if the City complied with Federal laws, HUD regulations, and other requirements in carrying out its CPD Programs. Our audit objectives were to determine whether the City:

- Complied with the CPD Program requirements, laws, and regulations;
- Had adequate controls to ensure compliance with HUD regulations; and
- Carried out its activities in an efficient, effective, and economical manner.

To accomplish the objectives, we tested program activities for compliance with program requirements. We interviewed the complainant, HUD's CPD Division officials, current and former City employees, contractors, and homeowners. We reviewed related City files and records; controls and procedures over contracts awarded for fiscal years 1997 through April 2000; and general controls, including lines of responsibility, duties, accounting systems and procedures. We selected and tested items from January 1997 through April 2000 based on expenditure amounts.

We performed detailed inspections for 20 of the 92 houses rehabilitated in 1999 and 2000. Of the 20 houses inspected, we selected 13 houses that were recently fully rehabilitated and 7 houses that had emergency repairs completed, based on the repair amount spent by year. The inspections were performed to determine compliance with HUD's HQS and national and local building codes. We also made site visits to other rehabilitated houses, the Weathersby Road economic development project, and nine downtown commercial facade improvement projects.

Our audit covered the period of 1997 through 2000. We extended the audit coverage as appropriate. We performed the audit field work from April through November 2000 in accordance with generally accepted government auditing standards.

The City Spent \$242,000 on Activities Not Addressing National CDBG Objectives

The City of Hattiesburg spent \$242,000 of CDBG funds on activities that did not address a required national objective. The activities included a road improvement project for \$175,000 and five grants to improve downtown commercial buildings totaling \$67,000. The City did not demonstrate how the projects met a national objective. City officials transferred funding from planned projects that met national objectives, without supporting the new activities' eligibility. Therefore, the funding may not have best served the interests of low and moderate-income persons as intended.

Criteria

Title 24 of the Code of Federal Regulations (CFR), Part 570.200 requires each grantee to maintain evidence that each of its assisted activities meets one of the program's three national objectives. Specific documentation must be maintained as described in Part 570.506. These regulations require that each activity either:

- Benefit low and moderate-income persons; or
- Aid in the prevention or elimination of slums or blight; or
- Meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs.

Part 570.208(a)(4) provides criteria for determining whether a CDBG activity complies with national objectives when an activity is designed to create or retain permanent jobs. To qualify the recipient must document that at least 51 percent of the jobs will be held by, or will be available to, low and moderate-income persons within 2 years from the time of CDBG assistance. Part 570.208(b) states that CDBG funds can be used to address slum and blight conditions provided: (1) the project is located in a designated slum and blight area that contains a substantial number of deteriorating buildings; and (2) activities address specific conditions which contribute to the area being designated a slum and blight area.

Weathersby Road improvements

On November 3, 1997, the City entered into a contract with a road paving company. The contract was to expand Weathersby Road to benefit a Lowe's Improvement Warehouse that was located nearby. However, the CDBG funds were originally planned and budgeted for drainage improvement in a targeted low income community.

The City reported in its 1998 Grantee Performance Report that the street improvements made it possible for Lowe's to expand and relocate its Hattiesburg operations. One hundred forty seven new jobs were to be created over a 2 year period, of which 125 jobs would benefit low and moderate-income persons. The Mississippi Employment Security Commission was to assist in assuring that first consideration was given to low and moderate-income persons.

The contractor completed the road improvements in May 1998. The City paid the contractor \$227,741, which included \$175,000 of CDBG funds. Therefore, documentation was required to support that low and moderate-income persons would hold at least 51 percent of the jobs within 2 years from the time of the CDBG assistance. The City did not maintain evidence supporting that the activity met the national objective.

City Officials said that the road expansion was an economic development project and it met the CDBG national objective of jobs creation for low and moderate-income persons. The City did not have any agreements or documentation pertaining to the proposed jobs creation. A Lowe's representative said they did not maintain records pertaining to jobs creation. The Lowe's representative provided documentation showing that during 1998 and 1999, they filled 37 positions, rather than the projected 147 new jobs. Further, the representative said that they could not determine which of the 37 positions, if any, were newly created and which were turnovers of existing positions. Lowe's documentation showed that of the 37 positions filled, low and moderate-income persons filled 19. However, the 19 positions were less than the 125 new jobs promised to benefit low and moderate-income persons.

Façade improvements

The City approved nine grants totaling \$110,400 to improve downtown commercial building facades. The funds used for the downtown improvements were originally planned and budgeted for the City's Micro-Loan Program. The Micro-Loan Program was to assist in the development and redevelopment of Hattiesburg's low and moderate-income areas. The City did not fund any micro-loans. Instead, it transferred all funds to the downtown facades improvement without addressing how the activities would meet national objectives. As of November 2000, the City had disbursed \$67,000 for five completed projects.

The City did not consider the national objectives when awarding the grants. The City based the facade awards on a first come-first serve basis, giving priority to projects having a significant visual and economic impact and showing dedication to preserving historic building integrity. In addition to facade grants, the City offered the owners other financial incentives including tax credits.

The City's policy and procedure guidelines did not address slum and blight conditions. The guidelines approved in March 1999 by the City Council mentioned the facade improvement activities. The improvements were scheduled for funding under the 1996 Consolidated Plan. However, the improvements were not included in a plan until fiscal year 2000. In 2000, the City's Consolidated Plan budgeted \$50,000 for facade improvement activities. The 2000 Consolidated Plan stated that these activities would address national objectives by aiding in the prevention or elimination of slums or blight.

We examined the project files and visited each of the nine approved facade projects. The files did not address the projects meeting a national objective. The properties were not located in a designated slum and blight area that contained a substantial number of deteriorating buildings. The staff did not provide any documentation showing that the properties were in such an area or that the projects addressed specific conditions, which contributed to designating downtown Hattiesburg a slum and blighted area.

The following downtown commercial buildings received funding approval.

<u>PROJECT</u>	<u>ADDRESS</u>	<u>AWARD</u>
Sack's Outdoor Store	200 E. Pine Street	\$15,000
Impressions in Stone	113 Newman Street	\$10,000
Studio Properties LLC	101 East Front Street	\$15,000
Landscape Studio	201 West Pine Street	\$15,000
Forrest Paper Company	511 East Pine Street	<u>\$12,000</u>
Subtotal of Grants for Completed Projects		<u>\$67,000</u>
Perma Coatings	127 Market Street	\$ 6,400
DJ's Shuttle & Tours	101 Hardy Street	\$12,000
Komp Equipment	319 East Pine Street	\$15,000
Phillips Law Office	33 Batson Street	<u>\$10,000</u>
Subtotal of Grants Approved – Projects Not Completed		<u>\$43,000</u>
Total of Grants Approved		<u>\$110,400</u>

COMPLETED PROJECTS

Sack's Outdoor Store – 200 East Pine Street - \$15,000



Studio Properties LLC-101 East Front Street-\$15,000

In summary, the City spent \$242,000 on a road improvement (economic development) project and five grants for downtown improvement projects that did not address any national objectives of the CDBG Program or serve the interests of low and moderate-income persons.

Excerpts from the City of Hattiesburg's comments on our draft findings follow. Appendix G contains the complete text of the comments.

Auditee Comments

The City generally agreed with the finding. "The City of Hattiesburg will document its files to show that 37 new jobs were created and that 19 (51.4 percent) of those jobs were filled by low- and moderate-income persons thus establishing the eligibility of the Weathersby Road improvements.

"...The City will determine if the downtown area, including the improved facades, lies in an area already declared by the City Council of the City of Hattiesburg to be a slum and blighted area. If such designation has been established, it will be provided to HUD. If the area has not been declared a slum and blighted area, the City will extensively document the existence of a number of conditions causing the area to meet HUD and State of Mississippi criteria for slum and blighted area designation and appropriate for revitalization and improvement.

Finding 1

“...The City of Hattiesburg will enhance its CDBG filing system to include a detailed documentation of the eligibility of each and every project activity.”

OIG Evaluation of Auditee Comments

We believe the City’s action will strengthen controls over the CDBG funded activities.

Recommendations

We recommend that you require the City of Hattiesburg to:

- 1A. Provide documentation to support that the \$242,000 of CDBG funds spent for the projects met CDBG national objectives or repay any unsupported costs to the CDBG Program.
- 1B. Establish and implement policies and procedures to ensure proper documentation of the national objectives for each activity funded with CDBG funds.

Homes Did Not Meet Standards

The City did not ensure that the rehabilitated houses in its program complied with HUD and local health, safety, and building standards. In addition, the City selected one house that was not feasible for its housing program. For the 20 houses inspected, we identified 54 work items that the contractors did not complete and 71 work items that the contractors completed in an unacceptable manner. We also identified 84 code or HUD HQS violations that the City did not identify and include in its rehabilitation contracts. Of the 20 houses inspected, 13 involved full rehabilitation and 7 involved emergency repairs (see Appendices B and C).

The full rehabilitation deficiencies occurred because the City's inspectors did not identify inferior or incomplete work when performing inspections. The emergency repairs deficiencies occurred because the City did not clearly define an emergency situation, thus repairs were inconsistent. Also, the City did not adequately document the urgency of emergency repairs. The City did not include the code/HQS violations in its rehabilitation contracts because its inspectors were not adequately trained to perform initial inspections and prepare adequate work write-ups.

As a result, the homeowners were not provided decent, safe, and sanitary housing after the rehabilitation work was completed. The City did not meet its program objective of improving housing conditions for low and moderate-income families and very low-income families.

Repair work must be completed in an acceptable manner

Title 24 CFR 85.36 (b)(2) states that grantees and subgrantees will maintain a contract administration system that ensures contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

The City's July 1999 CDBG/HOME Rehabilitation Grant Program Guidelines provide procedures for initial inspections to complete work write-ups for substandard conditions and subsequent inspections to assure work was completed in an acceptable manner. Work write-ups for each property should provide specific details on work to be completed.

Rehabilitated properties must meet HQS and/or local codes

The City's Guidelines specified that in the event of conflict, Federal rule would prevail. Title 24 CFR 570.208 (b)(1)(iv) states that at a minimum, the local definition for this purpose must be such that buildings rendered substandard would also fail to meet HQS for the Section 8 Housing Assistance Payments Existing Housing Program. In addition, the City's Guidelines requires that each structure meet the requirements of the Housing Code,

Building Code, Plumbing Code, Mechanical Code, Gas Code, and National Electric Code.

CDBG/HOME expenditures

The City received \$1.5 million annually from 1995 to 2000 in combined CDBG and HOME Program funds. During 1998 and 1999, the City expended the following:

Year	CPD Funds	Activity	Amount
1998	CDBG	fully rehab 20 houses	\$346,525
1998	HOME	fully rehab 5 houses	96,481
1998	CDBG	emergency repairs 37 houses	163,992
1999	CDBG	fully rehab 4 houses	109,245
1999	HOME	fully rehab 9 houses	121,117
1999	CDBG	emergency repairs 56 houses	237,073

OIG inspections

We inspected 20 houses that the City had or should have performed its final inspections. We selected 13 houses that were recently fully rehabilitated and 7 that had emergency repairs made. We inspected the houses using HUD's HQS manual and local building codes and standards. We identified the following deficiencies (see Appendices D and E for the deficiencies of each property).

Contract work not completed

We identified 54 work items (48 full rehabilitation and 6 emergency) included in the rehabilitation contracts that the contractors did not complete. For example, the contractors did not: (1) install a wheelchair ramp at the rear and handrails on exterior steps; (2) replace rotted window trim and soffitt; (3) install 200 AMP electrical service, a ground fault circuit interrupter (GFCI) in the bath and kitchen outlets, and a bath heat/vent light; (4) install kitchen cabinet shelving; and (5) paint hallway walls, den walls, and closets. Also, there were instances where contractors were paid twice for work performed such as front porch decking repair, front porch painting, rotten siding replacement, and water heater repairs.

Repairs completed in unacceptable manner

We identified 71 work items (66 full rehabilitation and 5 emergency) where the contractor used inappropriate installation techniques or shoddy materials. For example, the contractors did not properly: (1) remove flaking paint and paint chips and provide adequate paint coverage for a wheelchair ramp and exterior wood; (2) ensure adequate ventilation for numerous gas heaters; (3) install vinyl flooring and water heaters properly; (4) install GFCI outlets and a main/wall switch; and (5) encase kitchen electrical wiring in protective conduit and refinish kitchen cabinets. In addition, the contractor inappropriately extended a sewer

vent pipe through the roof and installed drain pipes to the sewer.

Code/HQS violations not identified

We identified 84 code or HQS violations (76 full rehab and 8 emergency) that the City did not identify during its housing inspections. Therefore, the City did not include the violations in the contracts and the contractors did not correct the deficiencies. The deficiencies included unrepaired/unpainted bedroom closets, inappropriate paneling, kitchen cabinets not finished properly, doors improperly trimmed or not weather tight, vinyl improperly installed, smoke detector not installed, peeling paint, exposed electrical wiring, GFCI outlets not installed, rotted exterior wood/siding not replaced, seriously deteriorated exterior windows, dwelling not connected to approved sanitary sewer, toxic odor from opening to septic tank, existing unvented space heater, and water heater vent pipe not sealed.

Inspection of houses

The following provides examples of the deficiencies we found at the houses inspected.

33 Brady Road

The homeowner received a CDBG grant for \$19,680, including an initial contract for \$17,270. The contract included repairs to exterior plywood and roof; windows replacement; gas furnace replacement; sewer line installation; sheetrock repair/replacement and painting; faucet, GFCI, and water heater installation; cabinet painting; formica countertop installed; and carpet installation. On November 10, 1999, the City's Housing Inspector performed an initial inspection and repairs write-up. The Inspector also made four construction progress inspections between January 21 and February 16, 2000. The final inspection was performed on February 23, 2000. Prior to the final inspection, the City's Land Development Code Division also performed a final electrical inspection. However, our July 25, 2000, inspection identified seven instances where contract work was not completed and one instance where the work was unacceptable. We also noted 12 substandard conditions that were not included in the contract.

The new kitchen fixture had exposed electrical wiring (Figure 1). The kitchen vinyl was not properly trimmed

(Figure 2). An opening to the septic tank was hazardous and emitted toxic odors (Figure 3). Other code/HQS violations not identified in the City's inspections included a switch not flush with the wall, kitchen formica top improperly installed, no interior access to the attic, bath GFCI outlet not installed, and doors not weather tight.



Figure 1



Figure 2



Figure 3

802 Atlanta Street

The homeowner received a CDBG grant for \$21,078, including an initial contract for \$18,271. The contract included repairs to exterior siding, roof, windows, and deck; painting of interior and sheetrock/paneling replacement; and installing new doors, vinyl flooring/carpet, GFCI outlets, gas heaters, smoke detectors, and flex lines to the water heater/stove/heater. On January 24, 2000, the City's Housing Inspector performed an initial inspection and repairs write-up. The Inspector also made nine progress construction inspections between March 20 and March 31, 2000, and two final inspections on April 11, 2000. Prior to the final inspection, the City's Land Development Code Division also performed a final electrical inspection. However, our July 27, 2000, inspection identified two instances in which contract work was not completed and six instances where work was unacceptable. We also noted nine substandard conditions that were not included in the contract.

The bedroom closet was not included in the repairs (Figure 4). The closet had hazardous splintered paneling, heavy water damage to the ceiling, a hazardous gas piping used as a clothes rod, and portions of the corners were open to the exterior. Other code/HQS violations not identified in the City's inspections included additional electrical outlets needed in the living room and bedroom, smoke detector needed in the den, gutter required a downspout, exterior electrical wiring required protective conduit, rotted exterior wood needed replacing, and unvented gas heaters were installed.



Figure 4

**Various other houses
inspected**

Other examples of poor workmanship included a water heater missing a flue collar (Figure 5), peeling paint (Figure 6), and vinyl improperly installed (Figure 7). Appendix F contains additional photographs of deficiencies.



Figure 5

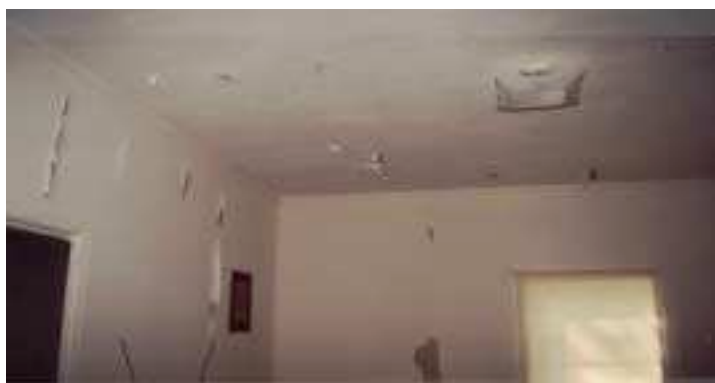


Figure 6



Figure 7

**House not feasible
for program**

The homeowner received a CDBG grant for \$24,906, including an initial contract for \$19,985. The contract included electrical installation; replacing siding, back porch sill, windows, rear steps, plywood and flooring for front porch, ceiling tiles, and bathroom floor; back porch repairs; leveling the house; interior painting; and vinyl, cabinet, sink, vent hood and space heater installation. However, our July 27, 2000, inspection identified 8 instances where contract work was not completed and 12 instances where work was unacceptable. We also noted seven substandard conditions that were not included in the contract.

The deficiencies and substandard conditions included plumbing vent pipes not extended through the roof, poor installation of electrical wiring, non-mortared concrete block piers, unvented and inappropriate sized space heaters, interior doors in disrepair (Figure 8), rotted window sashes and framework, and unrepaired holes in flooring (Figure 9).



Figure 8



Figure 9

Section V.A. of the City's Guidelines state that a house is feasible for rehabilitation if the cost does not exceed 50 percent of the present day cost of new construction, based on \$45 per square foot. However, Section VII. C. limits the rehabilitation assistance to \$25,000.

If the deficiencies and additional substandard conditions noted during our inspection were considered, the house would have required an additional estimated \$24,288 in repairs to meet code/HQS requirements. Thus, the rehabilitation would have far exceeded the \$25,000 limit. Therefore, the City should not have included the house in its rehabilitation program.

**Code/HQS
requirements were
not enforced**

The City accepted inferior or incomplete work by the contractors. The 54 incomplete contracted work items and the 71 unacceptable work items we identified demonstrate this. The number of fully rehabilitated houses completed by the City dropped from 25 in 1998 to 13 in 1999. While some of it is attributable to the City's increased efforts on emergency repairs, we believe the City may have sacrificed quantity and quality due to limited staff. Currently, the City has only three employees in its Urban Development Community Development Division administering its housing programs, which include full rehabilitation, emergency repairs, neighborhood improvements, demolition, down payment assistance, and facade improvements.

**Inspection work
write-ups inadequate**

The City did not ensure its work write-ups included all necessary repairs. Based on our inspections, the 84 code/HQS deficiencies that were not included in the rehabilitation contracts demonstrate the need for the City to improve its initial inspections and work write-ups. The inadequate write-ups and need for excessive change orders creates opportunity for waste and abuse. The City's Urban Development staff acknowledged that prior work write-ups lacked clarity and did not identify all necessary repairs.

**Inspectors need
additional training**

The City's HUD Housing Inspectors and code enforcement employees did not receive adequate training to complete the write-ups or to perform adequate inspections. This was particularly evident in the 84 code/HQS violations omitted from rehabilitation contracts. Former community development employees performed most of the housing inspections. Also, the City's Land Development Code

Division did not note deficiencies when it performed inspections. For instance, contrary to the City's Guidelines, the "final word" on code compliance relating to mechanical and electrical is the responsibility of the Code Division. Although, our inspections disclosed instances where despite the Code Division's approval, a 200 AMP electrical service was not installed, GFCI outlets were improperly or not installed, electrical wiring was not placed in protective conduit, unvented gas heaters were routinely accepted, and water heaters were not appropriately repaired or replaced.

Section IX C. 3.b. of the City's Guidelines indicates that the HUD Housing Inspector shall insist upon quality construction with high quality new materials. The Inspector shall not sign off on any inspection if inferior or defective construction or materials exists.

**Emergencies were
not clearly defined**

The City did not clearly define and document emergency situations. Section I of the City's September 1999 Emergency Housing Repair Grant Program Guidelines states that only repairs of an emergency nature will be considered for approval. The guidelines define emergency as work that is necessary to eliminate conditions detrimental to health and safety. The emergency is to be determined by the contractor and verified by the City's HUD Housing Inspector, Building Inspector, or Housing Coordinator. Section IV states that the contractor's work write-up shall show all work necessary to correct the emergency repairs identified.

However, based on our inspections, the City was inconsistent when determining emergency situations. For instance, the City addressed the replacement of space heaters in one instance, but not in another where health and safety was an issue. The inconsistency indicates the need to more clearly define an emergency. Also, the City needs to improve its documentation of the urgency of a repair.

**The City's actions to
address deficiencies**

During our review, the City began making plans to correct the cited deficiencies. The City's proposed actions included re-inspecting the houses we inspected and correcting the cited deficiencies, correcting the space heater and sewer problems, ensuring that contractors correct the unacceptable work, implementing a contractor debarment policy, and determining necessary staff adjustments including dismissal, reassignment, and hiring.

Excerpts from the City of Hattiesburg's comments on our draft findings follow. Appendix G contains the complete text of the comments.

Auditee Comments

The City generally agreed with the finding. "The City will temporarily suspend the housing rehabilitation program pending a complete evaluation of the program, its guidelines and procedures. Upon completion of the evaluation, the City will make necessary changes to insure that the program is implemented in accordance with the local program guidelines, building and related codes, and HUD rules and regulations governing housing rehabilitation programs. Staff training will be a priority."

**OIG Evaluation of
Auditee Comments**

We believe the City's action will strengthen controls over its housing program.

Recommendations

We recommend you require the City of Hattiesburg to:

- 2A. Correct all deficient, incomplete work and code/HQS violations noted during our inspections. Any work items noted as not completed or not completed in an acceptable manner should be corrected at no further costs to the program.
- 2B. Re-inspect all houses completed since January 1998 that we did not inspect and correct any items that were not completed or completed in an unacceptable manner. Also, correct all code/HQS violations that should have been included in the work write-up, but were omitted. Any work items noted as not completed or not completed in an acceptable manner should be corrected at no further costs to the program.
- 2C. Remove any contractor unwilling to correct the deficiencies identified during the inspections or incapable of performing quality work.

- 2D. Improve the system for performing inspections by providing adequate staff training for assigned personnel.
- 2E. Establish and implement policies and procedures to ensure proper guidelines for defining and documenting an emergency and to assign responsibility of final approval for code compliance.
- 2F. Ensure local codes are enforced and communicate such enforcement to participating contractors.
- 2G. Monitor future rehabilitation contracts to ensure work is performed in accordance with standards and specifications.
- 2H. Repay the CDBG Program \$24,906 for the ineligible rehabilitation grant. Also, determine if any other repairs were made to the 208 E. 5th Street house from CDBG funds and, if so, repay the funds to the CDBG Program.

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The City Did Not Follow Proper Procurement Requirements

The City of Hattiesburg's procurement practices did not comply with Federal procurement and contracting requirements or its own procurement policy. The City improperly procured \$2,916,831 of goods and services without adequately documenting the procurements. The contract deficiencies included: (1) improperly soliciting and awarding contracts; (2) awarding sole source procurements; (3) not performing independent cost estimates or cost and price analyses; and (4) repeatedly selecting the same contractor. The deficiencies occurred because the City disregarded requirements and did not properly monitor the CDBG and HOME Programs. As a result, HUD lacked assurance that the City obtained goods and services at the most advantageous terms.

Procurement requirements

Title 24 CFR 85.36 (b)(2) requires a contract administration system that ensures contractors perform according to terms, conditions, and specifications of their contracts. Section (c)(1) states that all procurement transactions be conducted in a manner providing full and open competition, including prohibitions against placing unreasonable requirements on firms in order for them to qualify to do business and any arbitrary action in the procurement process. Section (b)(9) requires the grantees to maintain sufficient records to show the significant history of the procurement. The records shall document the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the cost or price. Section (f)(1) states that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action. Section (b)(1) states that grantees and subgrantees should use their own procurement procedures that reflect applicable State and local laws and regulations, provided that procurements conform to applicable Federal law.

The City's February 21, 2000, Purchasing Manual requires written bids, initiated only by Purchasing Division staff members, for amounts from \$1,500 to \$10,000. For amounts over \$10,000 purchases must be bid as required by state law, which in part requires advertising for competitive sealed bids once each week for 2 consecutive weeks and making the purchase from the lowest and best bidder.

**Competitive
procedures were not
followed or**

The City contracted services totaling \$2,916,831 without properly executing contracts or documenting a cost or price analysis. The services included full and emergency rehabilitation construction (\$2,410,844), engineering (\$273,796), road paving (\$222,741) and consultants (\$9,450). Some of the emergency rehabilitation construction and engineering services procurements were sole source without competitive prices or proposals. The City repeatedly obtained the same firm for its engineering services and used the same small group of contractors from 1995 to 2000 for its rehabilitation construction services. As a result of the City disregarding the procurement procedures, it incorrectly obtained goods and services without full and open competition.

**Rehabilitation
construction
contracts**

The City did not have effective controls over its procurement and contracting for rehabilitation contractors selected for homeowner grantees. From 1995 to 2000, the City spent \$2,410,844 for home rehabilitation grants. The grants consisted of \$1,773,313 for 117 full rehabilitation grants and \$637,531 for 137 emergency rehabilitation grants. The City did not establish or implement procurement and contracting procedures for compliance with Federal regulations or its own requirements. Further, the rehabilitated homes in our sample did not meet HUD and local standards, as discussed in Finding 2.

The City did not allow homeowners to choose the contractors to perform the rehabilitation work on their houses. The City required homeowners to use the contractors it selected. However, the work performed by the selected contractors was inadequate. For example, the City paid a contractor \$20,646 to rehabilitate a property that resulted in poor workmanship. However, the City inspector passed the property. One of the work items was the construction of a porch (see photo below).



The City's Senior Planner stated that he was told the contractor stole bricks to support the poorly constructed porch. The Senior Planner forced the contractor to return the bricks. However, the City did not take action against the contractor and continued doing business with him.

The homeowners' granddaughter, who signed most of the grant documents for her grandmother, stated that she was very unhappy with the quality of work performed. She complained to City Officials and refused to sign the \$20,646 check for payment to the contractor. Therefore, the City officials had the grandmother sign the check for payment.

The City procured contractors for its full rehabilitation program by soliciting bids from a small select group of contractors, instead of advertising for bids, as required by the procurement policy. The City's practice was to reject all bids that were not within 10 percent of the estimated cost for rehabilitating the properties. This practice resulted in the City awarding contracts to contractors bidding higher than the low bidder and other bidders. After eliminating bidders, the City routinely approved change orders to increase the contract prices.

For example, the property pictured above was procured by soliciting bid proposals instead of advertising for sealed bids as required by the City's procurement procedures. The contractor who was awarded the contract was not the low bidder. The selected bid was \$20,141, but the lowest bid was \$19,434. The City's files contained five bid proposals as shown below.

CONTRACTOR	BID AMOUNT PROPOSED
A	\$19,434
B	20,141
C	21,260
D	24,350
E	No Bid

Contractor E said he submitted a proposal showing no bid, because City Officials asked him to bid. He stated that he could not properly remodel the property within the dollar limits set by the City Inspector.

The City provided no basis or rationale for not competitively awarding the emergency rehabilitation contracts. We were informed that awards should have been rotated among the bidders, but they were not. As a result, the City incorrectly awarded contracts through non-competitive procurement.

Engineering services contract

The City used the same engineering firm for two CDBG contracts. It paid the engineering firm \$273,796 from January 1998 to August 2000. Initially, the City used qualification-based procurement procedures to obtain the firm's services and did not consider the price. The City used sole source procurement procedures to award a second contract to the same firm without advertising or seeking proposals from other firms. The City did not provide a cost or price analysis for the contracts to support the price reasonableness or to justify awarding the second contract without competition. The Director of Public Services stated that as an engineer he was familiar with prices charged for such services. Based on his knowledge and guidelines from the engineering profession, he determined that the contract prices were reasonable. However, he did not document his determinations.

Although the method is prohibited by 24 CFR 85.36 (f)(4), the City made the \$273,796 payment on percentage of cost method of compensation. Since the engineering firm was responsible for determining and monitoring projects costs, the percentage of cost basis used to compensate the firm was susceptible to abuse.

**Road paving
contract**

On November 3, 1997, the City entered into a contract with a road paving company. The executed contract did not include a contract amount or reference any documents identifying the contract amount. The Public Services Department staff said that the \$230,191 contract price was shown in the proposal, which was part of the contract, and it was not necessary to reference that document in the contract itself. The contract did not include the required provisions pertaining to records retention, Davis-Bacon Act, or equal employment opportunity.

**Consulting services
contracts**

The City did not follow procurement requirements for consulting services contracts awarded sole source. In July 1999, the City entered into a professional services agreement with three consultants to design and administer a survey and analyze survey data. The consultants did not sign the service agreement. Only the City Urban Development Director's signature was on the agreement. The City agreed to pay a total fee of \$9,450 as work was completed. The billings and payments were based on the percentage of budgeted hours completed, rather than services completed, as specified in the agreement. The City's files did not document the reason for the sole source award or a cost or price analysis. As a result, the City awarded a non-binding and non-competitive contract without justification. The City's Senior Planner approved the payment, but noted on the payment request that he had not seen a contract supporting the payment.

Excerpts from the City of Hattiesburg's comments on our draft findings follow. Appendix G contains the complete text of the comments.

Auditee Comments

The City generally agreed with the finding. "...The City will compile documentation to support a determination that the Engineering and Consulting Services were reasonable and necessary. To establish the reasonableness of fees, the documentation will include, among other things, a comparative analysis of engineering fees for similar construction projects using the nationally accepted standards of the National Society of Professional Engineers. The costs of any engineering or consulting services that are not documented to be reasonable and necessary will be repaid to the CDBG Program.

“...The City of Hattiesburg will review and evaluate its existing procurement policies and make necessary changes that will insure that all procurement of goods and services will be in compliance with Title 24 CFR 85.36 and other HUD requirements.

“...All Contractors who do not perform acceptable work or will not correct unacceptable work will be subject to debarment.”

OIG Evaluation of
Auditee Comments

We believe the City’s action will strengthen controls over the procurement operations.

Recommendations

We recommend that you require the City of Hattiesburg to:

- 3A. Provide documentation to justify the reasonableness and necessity of the engineering and consultant services contracts.
- 3B. Establish and implement policies and procedures on procurement and contract administration to ensure compliance with 24 CFR 85.36 and other HUD requirements. At a minimum the policies and procedures should ensure that: (1) sealed bidding is used when appropriate; (2) the lowest responsible bidder is selected; (3) full and open competition is promoted; (4) invoices are not paid unless an executed contract is properly in place; and (5) sole source procurements are not awarded.
- 3C. Consider debarring any contractor performing poor quality work.

Controls Over Payroll Were Inadequate

The City did not maintain proper accounting controls over its payroll function. The City used CDBG funds to pay the salaries of an employee who did not provide services to its CDBG Program and four interns whose positions were not included in the CDBG budget. The City did not have written procedures for reviewing and approving payroll costs, or documenting personnel decisions. As a result, the City paid \$ 11,535 for non-related program activities and \$13,019 for unbudgeted costs.

Financial management requirements

Title 24 CFR part 570.502 requires each grantee to implement a financial management system in conformity with 24 CFR 85 and Office of Management Budget (OMB) Circular A-87. Section 85.20 (b)(3) requires each grantee to maintain effective control and accountability for all assets and to adequately safeguard all property and assure it is used for authorized purposes. Section 85.20 (b)(4) requires actual expenditures be compared to budgeted amounts.

Improper payroll paid

From September 1999 to March 2000, the City used \$11,535 of CDBG funds to pay the salary of a Code Enforcement Inspector who never provided services to the CDBG Program. The City's Accounting Department charged the salary based on information provided by the Personnel Department without requiring verification from the Urban Development Department. The Accounting Department provided the Urban Development Department quarterly salaries charged to the CDBG Program, but did not provide an itemization of salaries charged. Therefore, improper salaries charged to the CDBG Program were not detected.

In addition, the City payroll records showed \$13,019 of CDBG funds used to pay interns whose positions were not included in the CDBG budget as shown below.

Hire Date	Position	Annual Rate
7/6/99	Intern A	\$ 2,083
7/6/99	Intern B	427
7/7/99	Intern C	7,435
11/1/99	Intern D	3,074
Total		\$13,019

The City's budget included an administrative assistant position for \$24,702. The position was not filled, which resulted in a year-end surplus. Also, the City paid its Community Development Specialist \$2,789 less than the authorized amount, creating another surplus. The surplus from the positions offset the spending for the unbudgeted intern positions. Therefore, the unauthorized spending went undetected because overall payroll costs were within the budget limits.

The City's Senior Planner stated that he did not know how the interns' salaries were charged, and he was unaware of any CDBG activities performed by the interns. The City did not have procedures for reviewing and approving payroll costs to ensure the actual expenditures compared to the budgeted amounts. The City's personnel or payroll files did not justify payroll decisions. The personnel and payroll officials could not explain the payroll deficiencies. As a result, the City paid \$24,554 of ineligible payroll costs.

Excerpts from the City of Hattiesburg's comments on our draft findings follow. Appendix G contains the complete text of the comments.

Auditee Comments

The City generally agreed with the finding. "The City will repay the CDBG Program \$25,554 for payroll costs paid to the Code Enforcement inspector and the four interns. The City will review its Financial Management Systems and establish and implement written policies and procedures to ensure payroll records are accurately documented, reviewed and approved. The policy and procedures will be developed in accordance with Title 24 CFR 85 and OMB Circular A-87."

**OIG Evaluation of
Auditee Comments**

We believe the City's action will strengthen controls over its payroll function.

Recommendations

We recommend that you require the City of Hattiesburg to:

- 4A. Repay the CDBG Program \$24,554 for the payroll costs paid to the Code Enforcement Inspector and for the intern positions.
- 4B. Establish and implement policies and procedures to ensure payroll records are accurately documented, reviewed, and approved.

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Controls Over Programs Needed Improvement

The City did not establish and maintain operating systems to ensure its activities complied with the programs regulations. The City did not correct deficiencies HUD identified during its programs review. Also, the City did not monitor its subrecipients to ensure they implemented adequate systems for financial management. This occurred because the City did not properly manage its programs or have written procedures for monitoring subrecipients to ensure they properly implemented the required financial management systems. As a result of the City's ineffective programs management, there was no assurance that subrecipients properly operated their programs and citizens received the intended benefits.

Financial management requirements

Paragraph A (2)(a) of OMB Circular A-87 requires efficient and effective administration of Federal awards through the application of sound management practices. Title 24 CFR 85.20(a)(3) requires grantees to maintain effective controls and accountability for all grantees and subgrantees cash and other assets. Grantees must adequately safeguard all such property. Section 570.502 requires each grantee to implement a financial management system in conformity with 24 CFR Part 85 and OMB Circular A-87. Section 85.20 (b)(3) requires that financial management systems effectively account for and control the use of program funds and other assets. Section 85.36 (b)(2) requires grantees and subgrantees to maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts. Section 570.501(b) requires that subrecipients adopt and implement the same standards for financial management as grantees.

HUD reviews

HUD has documented a history of problems with the City's administration of the CDBG and HOME Programs. HUD performed reviews from 1996 to 2000 and identified various deficiencies that the City has not corrected. For example, HUD cited that the City's: (1) rehabilitated houses did not meet HQS; (2) internal control system over its procurement system was inadequate, (3) HOME Program needed improvement; and (4) program management needed improvement.

**Subrecipients were
not monitored**

The City's Urban Development Director said that management delegated the responsibility of implementing the corrections to the staff, however the corrections were not made. The Director said currently he uses action plans and verifies that the required corrective actions were completed for the deficiencies identified.

The City's subrecipient agreement included a provision that the City would monitor them against goals and performance standards. However, the City did not monitor its three subrecipients. The City had four contracts involving the three subrecipients. The contracts performance time frames expired without the subrecipients accomplishing all of the contractual tasks. The City did not address the subrecipients' poor performance. Instead of monitoring the subrecipients' performance or even suspending or terminating the contracts, the City chose not to monitor the subrecipients.

The City did not have written procedures for monitoring subrecipients to ensure they properly implemented their contracts or the required financial management systems. Therefore, the City did not assure the subrecipients had established, or were maintaining, all records required by Federal regulations. The City Officials said that they did not monitor the subrecipients because they had not spent much of the funds granted. The City should have realized that the slow spending by subrecipients indicated possible ineffective program administration. Therefore, the City should have intensified, rather than reduce, the monitoring. By not fulfilling its oversight responsibilities, neither the City nor HUD had adequate assurance that subrecipients were effectively accounting for and controlling the use of program funds.

* * * * *

In summary, the City did not effectively manage its CDBG and HOME Programs or adequately monitor its subrecipients to ensure that they were effectively administering their contracts. As a result, the City's subrecipients were not effectively accomplishing the tasks required by their contracts.

Excerpts from the City of Hattiesburg's comments on our draft findings follow. Appendix G contains the complete text of the comments.

Auditee Comments

The City generally agreed with the finding. "...The City will undertake a comprehensive review of its financial management systems, procedures for monitoring CHODOs [Community Housing Development Organizations] and sub-recipients, and procedures for responding to HUD's monitoring findings to insure that those monitoring findings and those cited in the Audit Report will not be repeated."

**OIG Evaluation of
Auditee Comments**

We believe the City's action will strengthen controls over the program.

Recommendations

We recommend that you require the City of Hattiesburg to:

- 5A. Establish and implement policies and procedures on financial management systems to ensure compliance with 24 CFR 85 and OMB Circular A-87.
- 5B. Monitor the performance of its subrecipients to ensure contractual agreements are completed. Terminate the contracts of any subrecipient who does not properly fulfill its contract requirements.
- 5C. Submit a corrective action plan to correct the deficiencies identified by HUD during its reviews.

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Management Controls

In planning and performing our audit, we considered the City's management controls to determine our audit procedures and not to provide assurance on the controls. Management is responsible for establishing effective management controls to ensure that its goals are met.

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined the following management control categories were relevant to our audit objectives:

- Eligibility with program requirements.

- Procedures used to comply with laws and regulations to meet national objectives.

- Procedures used to ensure proper housing rehabilitation.

- Procurement and contracting.

- Procedures used to ensure expenditures for administering the programs were eligible.

- Management monitoring methods.

- Procedures used to monitor subrecipients of grants and loans.

We assessed controls in place. We obtained an understanding of the City's procedures and HUD's requirements, assessed control risk, and performed various substantive tests of the controls.

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, we believe the City had significant weaknesses in the management controls. The specific weaknesses are discussed in the findings.

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Follow-Up On Prior Audits

This is the first Office of Inspector General audit of the City of Hattiesburg's CDBG and Home Programs.

Nicholson & Company, P.A., Certified Public Accountants, completed the last Independent Auditor's audit report for the fiscal year ended September 30, 1997. The report issued December 1, 1997, contained no findings or unresolved prior findings related to any Federally sponsored program.

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Schedule Of Ineligible and Unsupported Costs

Recommendation	Ineligible ¹	Unsupported ²
1A		\$ 242,000
2H	\$ 24,906	
4A	24,554	
Totals	\$ 49,460	\$ 242,000

¹ Ineligible costs are not allowed by law, contract, HUD or local agency policies or regulations.

² Unsupported costs are not clearly eligible or ineligible but warrant being contested because of the lack of documentation supporting the need to incur such costs.

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Properties Inspected – Full Rehabilitation Program

<u>PROPERTY ADDRESS</u>	<u>INSPECTION DATES</u>		<u>GRANT</u>	<u>GRANT</u>	<u>ITEMS NOT</u>	<u>ESTIMATED</u>	<u>CODE/HQS</u>	<u>ESTIMATED</u>	<u>TOTAL</u>
	<u>GRANTEE</u>	<u>OIG</u>	<u>REPAIR</u>	<u>WORK</u>	<u>COMPLETED/</u>	<u>ITEMS</u>	<u>VIOLATIONS</u>	<u>VIOLATIONS</u>	<u>ESTIMATED</u>
			<u>COSTS</u>	<u>ITEMS</u>	<u>UNACCEPTABLE</u>	<u>COST</u>	<u>NOT IN</u>	<u>COST</u>	<u>REPAIR COST</u>
							<u>CONTRACT</u>		
<u>FULL REHAB</u>									
802 ATLANTA STREET	4/11/00	7/27/00	\$21,078	61	2/6	\$2,593	9	\$1,847	\$4,440
800 FAIRLIE STREET	1/18/00	7/27/00	10,590	34	4/2	1,380	9	2,310	3,690
709 SHORT 9TH STREET	4/27/00	7/28/00	22,832	70	1/6	880	1	1,330	2,210
518 McINNIS SPRINGS RD		7/31/00	12,793	68	5/5	1,168	5	554	1,722
422 MOBILE STREET	1/28/00	8/02/00	22,836	80	3/6	715	8	680	1,395
908 FLOWERS STREET	5/26/00	8/02/00	24,571	66	2/9	1,645	2	1,575	3,220
423 BRADY ROAD	1/31/00	7/25/00	22,243	53	1/4	2,619	4	7,181	9,800
433 BRADY ROAD	2/23/00	7/25/00	19,680	74	7/1	740	12	3,065	3,805
418 E. 7TH STREET	3/9/00	7/25/00	24,831	81	6/6	3,120	7	2,300	5,420
905 RIVER STREET	4/3/00	7/26/00	23,815	75	2/2	890	4	1,550	2,440
710 SHORT 9TH STREET	4/27/00	7/26/00	24,590	76	1/4	1,230	7	1,920	3,150
524 E. 6TH STREET	5/4/00	7/26/00	24,224	93	6/3	2,465	1	2,090	4,555
208 E. 5TH STREET	2/2/00	7/27/00	24,906	77	8/12	8,681	7	15,607	24,288
TOTALS			\$278,989	908	48/66	\$28,126	76	\$42,009	\$70,135

Note: Grantee inspection date represents the date shown on the certificate of final inspection.
If no date is shown, the final inspection was not documented in the file

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Properties Inspected – Emergency Rehabilitation Program

<u>PROPERTY ADDRESS</u>	<u>INSPECTION DATES</u>		<u>REPAIR COSTS</u>	<u>WORK ITEMS</u>	<u>ITEMS NOT COMPLETED/ UNACCEPTABLE</u>	<u>ITEMS NOT AN EMERGENCY</u>	<u>CODE/HQS VIOLATIONS</u>
	<u>GRANTEE</u>	<u>OIG</u>					<u>NOT IN CONTRACT</u>
17 COLLINS ROAD	10/18/99	7/31/00	\$7,596	2	0/1	0	1
231 MAY AVENUE	05/04/00	7/31/00	5,965	8	0/0	2	2
106 N. 24TH AVENUE		7/31/00	6,730	3	1/0	0	0
406 ASHFORD STREET	08/19/99	7/31/00	5,865	10	1/2	5	1
718 MCMINNIS SPRING RD	06/08/99	8/01/00	4,356	9	2/1	6	0
428 MLK DRIVE	10/18/99	8/01/00	5,920	7	2/1	3	1
1011 DEASON AVENUE	09/16/99	8/01/00	5,724	7	0/0	3	3
TOTALS			<u>\$42,156</u>	<u>46</u>	<u>6/5</u>	<u>19</u>	<u>8</u>

Note: Grantee inspection date represents the date shown on the certificate of final inspection. If no date is shown, the final inspection was not documented in the file.

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Inspection Deficiencies For Full Rehabilitation Grants

<u>Deficiency</u>	<u>1</u>	<u>2</u>	<u>3</u>
<u>802 Atlanta Street</u>			
Flaking paint and paint chips not removed		X	
Wheelchair ramp not installed at rear	X		
Inadequate paint coverage on wheelchair ramp		X	
Hallway walls not painted	X		
GFCI outlet not installed at sink		X	
Exterior front door not weather-stripped		X	
Defective cabinet drawer guide		X	
Additional electrical outlets needed in living room; bedroom			X
Water heater not enclosed			X
Bedroom closet not repaired; splintered paneling; wall not sealed; corner open to the exterior; ceiling heavily water damaged; hazardous piping for clothes rod			X
Smoke detector not installed in den			X
Downspout for new gutter needed			X
Sewer cleanout cap needed			X
Exterior electrical wiring not placed in protective conduit			X
Exterior porcelain fixture not replaced			X
Rotted exterior wood not replaced			X
Unvented gas heater		X	
<u>800 Fairlie Street</u>			
200 Amp electrical service not installed	X		
New exterior wood not fully primed/painted		X	
Kitchen wall cabinet hardware not installed	X		
Repair of front porch decking duplicated	X		
Rotted siding not replaced; joints not sealed before painting			X
Rear porch panel siding not exterior grade; not sealed and caulked	X		X
Unvented space heater		X	
Smoke detector needed in hallway			X
GFCI outlet not installed at washer			X
Hallway light fixture not installed			X
GFCI outlets not installed at exterior			X
Exterior electrical wiring not in protective conduit			X
Water heater vent pipe not sealed			X
Burglar bars on front bedroom windows unacceptable			X

1 Work Not Completed

2 Unacceptable workmanship

3 Code/HQS violation not included in contract

Inspection Deficiencies For Full Rehabilitation Grants

<u>Deficiency</u>	<u>1</u>	<u>2</u>	<u>3</u>
<u>709 Short 9th Street</u>			
Storm door closes improperly		X	
Front exterior door not weather tight	X		
Bedroom number1 door closes improperly		X	
Kitchen vinyl flooring torn		X	
Water heater discharge line improperly constructed		X	
Laundry room vinyl floor loose at seams		X	
Unvented space heater		X	
Bathroom needs wall fixture/switch control at vanity/sink			X
<u>518 McInnis Springs Rd.</u>			
Doorbell not installed	X		
Water heater missing flue collar; discharge line improperly constructed		X	
Kitchen vinyl poorly installed		X	
Kitchen cabinet shelving not installed	X		
Kitchen cabinet door post not repaired		X	
Kitchen cabinet plywood end piece not installed	X		
Formica edging missing at stove area	X		
Bath ceiling paint peeling		X	
Bath GFCI outlet not installed	X		
Bath vanity door post not repaired; door not installed to framework		X	
Bath wall not repaired under sink			X
Bath vanity shelving not painted			X
Bedroom ceiling globe not replaced			X
Hall paneling inappropriate width; improperly installed			X
Bedroom window opens improperly			X
<u>422 Mobile Street</u>			
Some roof shingles not replaced; chimney flashing not properly installed		X	
Rotted window trim not replaced	X		
GFCI kitchen and bath outlets improperly installed		X	
Brick veneer not properly sealed		X	
Sewer vent pipe not extended through roof		X	
Exterior door not weather tight at den/laundry room		X	X
Heat/vent light unit not installed	X		
Bedroom number1 baseboard not replaced/painted	X		

1 Work Not Completed

2 Unacceptable workmanship

3 Code/HQS violation not included in contract

Inspection Deficiencies For Full Rehabilitation Grants

<u>Deficiency</u>	<u>1</u>	<u>2</u>	<u>3</u>
<u>422 Mobile Street</u>			
Vinyl flooring not sealed at tub		X	
Den panel wall not sealed at electrical box			X
Bath (half) without vent fan or window			X
Bedroom (1 st floor) wall switch omitted			X
Kitchen windows have no locks			X
Bedroom number 3 electrical outlet cover plate missing			X
Rear window brick sill cracked and not sealed			X
Kitchen cabinet interior side not painted			X
<u>908 Flowers Street</u>			
Rear exterior door not weather tight; will not latch		X	
Laundry room storm door will not latch		X	
Rear landing guardrail spindles irregularly spaced		X	
Kitchen electrical wiring not placed in protective conduit		X	
Kitchen countertop delaminating		X	
Roof eave trim loose near gable peak		X	
Roof trim and drip edge missing at front gable		X	
Door to hallway number 2 installed upside down; hardware omitted		X	
Smoke detector not installed	X		
Front porch painting duplicated	X		
Water heater vent pipe not sealed			X
Unvented space heaters		X	
Bedroom door poorly trimmed			X
<u>423 Brady Road</u>			
Exterior paint surfaces not prepared properly		X	
Exterior steps require handrails on both sides	X		
Paint peeling in dining room/rear bedroom/utility room		X	
Kitchen cabinets improperly refinished		X	
Unvented space heater		X	
Dining room exterior door not weather tight; will not latch			X
Exterior windows seriously deteriorated; missing locks; missing sash cords; sashes rotted; panes loose/broken			X
Utility room floor not sealed around pipes/baseboards			X
Dwelling not connected to approved sanitary sewer			X

1 Work Not Completed

2 Unacceptable workmanship

3 Code/HQS violation not included in contract

Inspection Deficiencies For Full Rehabilitation Grants

Deficiency	<u>1</u>	<u>2</u>	<u>3</u>
<u>433 Brady Road</u>			
Sewer line not properly capped; trench not backfilled	X	X	
Den not painted and damaged ceiling tiles replaced	X		
Desk not stained/painted	X		
GFCI not installed (1 of 2) in kitchen	X		
Kitchen cabinet new drawer not installed	X		
Bedroom number 1 closet not painted	X		
Bedroom number 1 wall switch not flush with the wall			X
Bathroom number 2 linen closet doors not installed	X		
Kitchen formica top improperly installed			X
Attic interior access not installed			X
Rear gable doors not secured			X
Laundry room electrical outlet plate missing			X
Bath grab bar/soap dish not caulked/sealed			X
GFCI outlet not installed in bath			X
Kitchen vinyl not properly trimmed			X
Living room exterior door not weather tight; deadbolt inoperative			X
Foyer exterior door not weather tight			X
Open septic tank in carport area; toxic odors			X
Exposed electrical wiring at kitchen light fixture			X
<u>418 E. 7th Street</u>			
Paint chips not disposed of properly		X	
Soffit not replaced (none on the house)	X		
Metal grating not installed	X		
Main switch not installed		X	
GFCI outlets not installed in kitchen and bath	X		
Kitchen vinyl seam not sealed properly		X	
Kitchen cabinets shelving not installed; protruding nails		X	
Bathroom number 1 water cutoff is inoperable		X	
Unvented space heaters		X	
Siding replacement duplicated	X		
Water heater repairs duplicated	X		
Drain line replacement and bathroom tie in duplicated	X		
Hallway smoke detector needed			X

1 Work Not Completed

2 Unacceptable workmanship

3 Code/HQS violation not included in contract

Inspection Deficiencies For Full Rehabilitation Grants

<u>Deficiency</u>	<u>1</u>	<u>2</u>	<u>3</u>
<u>418 E. 7th Street</u>			
Bedroom number 4 vinyl not replaced			X
Paint peeling in bedroom number 3			X
Kitchen stove burner is hazardous			X
Burglar bars unacceptable on bedroom windows			X
Exterior door double-key deadbolt locks unacceptable			X
Electrical outlets in dining room inappropriate			X
<u>905 River Street</u>			
Turbines (non-existent) not painted	X		
Siding not repaired/painted		X	
Unvented space heaters		X	
Roof edge installation duplicated	X		
Kitchen vinyl poorly repaired seam			X
Existing unvented space heater(s) not removed			X
Kitchen vent hood installed too high			X
Electrical outlets in bedrooms number 2 and 3 inappropriate			X
<u>710 Short 9th Street</u>		X	
Flaking paint and paint chips not removed		X	
Kitchen cabinet doors improperly installed		X	
Kitchen formica countertop not sealed			
Smoke detector not installed	X		
Unvented space heaters		X	
Existing unvented space heater not removed			X
Front exterior door not weather tight			X
Dining room floor not level			X
Interior door at bedroom number 2 needs trimming			X
Closets not painted			X
Exterior electrical wiring improper; not in protective conduit			X
Porcelain fixture improper for exterior use			X
<u>524 E. 6th Street</u>			
Knee brace at front porch overhang not repaired	X		
Windows (6) not enclosed	X		
No certification for insulation		X	
Cabinet door interior not stained	X		

1 Work Not Completed

2 Unacceptable workmanship

3 Code/HQS violation not included in contract

Inspection Deficiencies For Full Rehabilitation Grants

<u>Deficiency</u>	<u>1</u>	<u>2</u>	<u>3</u>
<u>524 E. 6th Street</u>			
Bathroom vinyl seam not sealed		X	
Sink top not secured to vanity		X	
Unvented space heaters; wrong size installed	X		
Smoke detector needed in bedroom number 2	X		
No lock on gable door	X		
Eave vents not closed			X
<u>208 E. 5th Street</u>			
Siding not adequately sealed before painting		X	
Electrical wiring not attached to joist; no cover plate on junction box		X	
Barge rafter not replaced	X		
Broken window panes not replaced	X		
Rear bath and kitchen not properly jacked and leveled		X	
Rear brick pier not properly repaired		X	
Ceiling tiles not replaced	X		
Bath linoleum floor has open seam		X	
New heat, vent light unit not installed	X		
Faucet handle improperly installed		X	
Door does not close properly	X		
Kitchen cabinetry does not meet code		X	
Rear door not refurbished	X		
Back porch not properly jacked and leveled		X	
Unvented space heaters		X	
Concrete blocks not mortared		X	
Boarding (1x6) not installed	X		
Windows not trimmed	X		
No certification for insulation		X	
Heater repairs (flex lines) not specified		X	
Electrical code deficiencies			X
Areas need leveling			X
Smoke detectors needed in hallway			X
Windows in disrepair			X
Exterior vent stack not extended through roof			X
Wood floor openings not repaired			X
Water heater piping in disrepair; not enclosed			X

1 Work Not Completed

2 Unacceptable workmanship

3 Code/HQS violation not included in contract

Inspection Deficiencies For Emergency Rehabilitation Grants

<u>Deficiency</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
<u>17 Collins Road</u>				
Drain pipes to the sewer precariously installed		X		
Old septic tank should have been removed and hole filled				X
<u>231 May Avenue</u>				
Handicap ramp improperly constructed				X
Unvented gas space heaters with no flex-line and cutoff valve				X
New supply lines to bath			X	
New gable vent			X	
<u>106 N. 24th Ave.</u>				
New exterior wood not painted	X			
<u>406 Ashford St.</u>				
Install new faucet etc. in bathroom			X	
Rebuild commode			X	
Install new faucets etc. in kitchen			X	
Replace fascia board and paint			X	
Wall switch improperly installed		X		X
200 amp electrical service not installed	X			
Exterior siding not repaired and sealed		X		
Water heater needed replacement			X	
<u>718 McInnis Spring Rd.</u>				
Reroof house			X	
Replace boots on plumbing stacks			X	
Repair tub handle	X		X	
Repair exterior front faucet			X	
Repair exterior back faucet			X	
Repair washing machine pipe, vent etc.			X	
120 linear feet of sewer line not installed	X			
New sewer line exposed to potential damage		X		

1 Work not completed

2 Unacceptable workmanship

3 Not an emergency

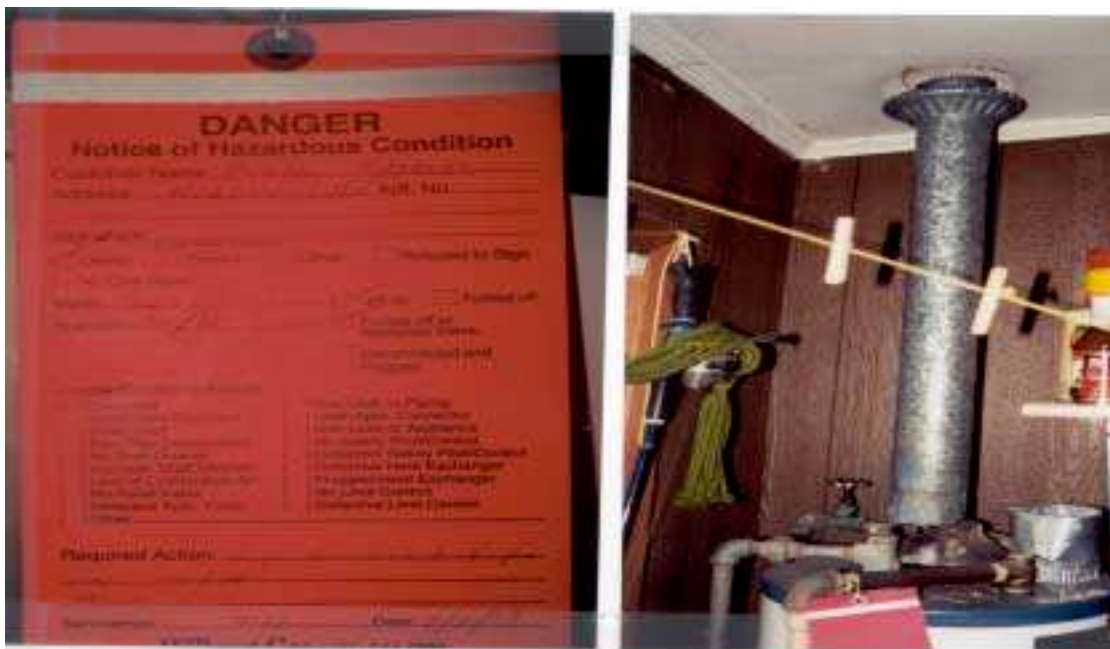
4 Code/HQS violation not included in contract

Inspection Deficiencies For Emergency Rehabilitation Grants

<u>Deficiency</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
<u>428 MLK Drive</u>				
200 amp electrical service, mast, weatherhead, and panel not installed	X		X	
Bath switch and GFCI outlet improperly installed		X		
Smoke detector not installed	X		X	
Water heater needed replacement				X
Light fixtures installed			X	
<u>1011 Deason Ave.</u>				
New gas heaters not vented			X	X
Install smoke detectors (one not installed)			X	X
Install new light fixtures			X	
Water heater improperly vented				X

-
- 1 Work not completed
2 Unacceptable workmanship
3 Not an emergency
4 Code/HQS violation not included in contract

Selected Photographs



428 Martin Luther King Drive

Water heater was red tagged by the gas company because emergency repairs were in progress. This is a health and safety violation.



428 Martin Luther King Drive

The installation of a new bathroom wall switch and GFCI outlet had substandard workmanship.



231 May Avenue

Unvented gas space heater in the bedroom should have been included in emergency repairs. This is a health and safety violation.



518 McInnis Springs Road

Kitchen vinyl flooring was poorly installed and trimmed at cabinet base area.



208 E.5th Street

Defective wood trim and sill not replaced before painting. Vent pipe was not extended through the roof. Therefore, sewer gas escapes through the opening.



208 E.5th Street

Rotted window sashes and framework.

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Auditee Comments

City Council

Betsy M. Rowell.....Ward One
Deborah L. Denard.....Ward Two
Carter Carroll.....Ward Three
C. E. "Red" Bailey.....Ward Four
Henry E. Naylor.....Ward Five



City of Hattiesburg

Johnny L. DuPree, Mayor

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Email: mayor@hattiesburgms.com
council@hattiesburgms.com
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August 9, 2001

Ms. Sonya D. Lucas
Assistant District Inspector General for Audit
U. S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

In Re: Initial Comments
Audit of HUD CPD Programs

Dear Ms. Lucas:

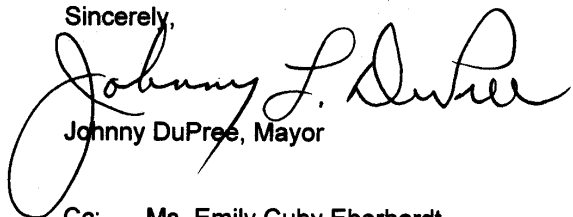
I am pleased to attach the City of Hattiesburg's initial response to the draft Audit of the City's Community Planning and Development Programs. Upon receipt of the final Audit Report from your office, we will work diligently to address each finding and recommendation in the audit and will provide your office with a report on the status of each recommendation set forth in the audit within sixty (60) days of receipt of the final audit.

In an attempt to accurately and expeditiously address potential weaknesses in our program administration, the City has employed consultants (see attached resumes) with a good working knowledge of the Community Planning and Development Programs and experience in resolving audits for other Mississippi Community Development Block Grant Program entitlement cities. The consultants will work with our staff and representatives of the U.S. Department of Housing and Urban Development to respond to each finding, to modify existing policies and procedures or develop new ones and to implement measures that will correct problems and insure that they will not happen again.

The CPD programs are complex. We view the audit as a learning opportunity. It has helped us to learn our strengths and weaknesses, and it gives us greater insight into the proper interpretation of rules and regulations governing the programs. We are anxious to resolve the audit findings and to develop an improved program through which we can better serve our community. To that end, we respectfully request your advice, guidance, and support in working through the audit resolution process.

Thank you in advance for your support and assistance.

Sincerely,

A handwritten signature in black ink, reading "Johnny L. DuPree". The signature is fluid and cursive, with the first name "Johnny" and last name "DuPree" clearly legible. The middle initial "L." is smaller and positioned between the first and last names. The signature is written over the printed name "Johnny DuPree, Mayor".

Johnny DuPree, Mayor

Cc: Ms. Emily Cuby Eberhardt

**CITY OF HATTIESBURG
AUDIT COMMENTS**

Finding 1 - The City Spent \$242,000 on Activities Not Addressing National CDBG Objectives

Weathersby Road Improvements (\$175,000)

The City of Hattiesburg viewed the Lowe's expansion and relocation as an economic development project. City officials believed that without the relocation and expansion of the old store, Lowe's would close its Hattiesburg store and that the City would suffer a loss of jobs, a loss of ad valorem taxes, and a loss in retail sales. In addition, the negative effect of losing a major retailer such as Lowe's could have had a significant negative effect on the City's ability to attract other national retailers to Hattiesburg.

Improvements to Weathersby Road resulted in the relocation and expansion of Lowe's. The old store was a 72,000 square foot building. The new store is 130,000 square feet and is a net increase of 37 jobs. The City benefited from the new jobs, increased retail sales, and from increased property taxes.

An initial and preliminary review of records indicates that the City did not adequately document its files to clearly show the creation of low and moderate-income jobs at Lowe's, however, the City of Hattiesburg believes that the expenditure of CDBG funds to improve Weathersby Road met the CDBG national policy objective of creation of jobs for low and moderate-income persons. While new jobs created fell short of the projected 147 jobs, the relocation of Lowe's retained existing jobs and resulted in the creation of new jobs. According to the audit report, 37 new jobs resulted from the relocation of Lowe's and 19 or 51.4% of the jobs were filled by low and moderate-income persons.

Façade Improvements (\$67,000)

The City of Hattiesburg believes the downtown area within which the improved buildings lie is a slum and blighted area as defined by the laws of the State of Mississippi and HUD criteria. The City of Hattiesburg believed that the façade improvements made in its downtown area met a National Policy Objective of the CDBG program through the elimination of conditions contributing to the existence of slums and blight. However, the City's staff failed to adequately document its files to show that the area meets HUD and State of Mississippi prerequisites for slum and blighted area designation.

Corrective Actions

Weathersby Road

- 1.A. (1)** The City of Hattiesburg will document its files to show that 37 new jobs were created and that 19 (51.4%) of those jobs were filled by low and

moderate-income persons thus establishing the eligibility of the Weathersby Road improvements.

Facade Improvements

1 A. (2)

Upon receipt of the final audit report, the City will determine if the downtown area, including the improved facades, lies in an area already declared by the City Council of the City of Hattiesburg to be a slum and blighted area. If such designation has been established, it will be provided to HUD. If the area has not been declared a slum and blighted area, the City will extensively document the existence of a number of conditions causing the area to meet HUD and State of Mississippi criteria for slum and blighted area designation and appropriate for revitalization and improvement. The City will take any other actions necessary in documenting that the area is a slum and blighted area and appropriate for the expenditure of CDBG funds for facade improvements as well as other improvements that will contribute to the elimination of one or more of the slum and blighting conditions.

1 B.

To prevent recurrence of problems related to documentation of eligibility, the City of Hattiesburg will enhance its CDBG filing system to include a detailed documentation of the eligibility of each and every project activity. At the time of the preparation of annual action plans or amendments thereto, the CDBG program staff will accomplish the following:

1. Create a project/activity file for each project/activity to include:
 - a. A detailed description of the activity to be undertaken;
 - b. Identification of the National Policy Objective met by the activity;
 - c. The location (map) of the activity;
 - d. Evidence or basis for eligibility of the activity for CDBG funding including a citation from the Code of Federal Regulations; and
 - e. Documentation for meeting the National Policy Objective in accordance with section 570.208 of the CDBG regulations.
 - (1) Census or other data documenting the number of beneficiaries that are low and moderate income.
 - (2) Slum and Blighted Area designation and documentation
 - (3) Economic Development/creation of low and moderate-income jobs
 - f. Review each and every file with a HUD representative and obtain written concurrence from HUD.

Finding 2 – Homes Did Not Meet Standards

The City of Hattiesburg recognizes that a housing rehabilitation program is a complex and complicated program and very difficult to administer. As such, housing rehabilitation programs are highly susceptible to administrative errors and mistakes. The City believes that errors were largely the result of a lack of understanding of HUD program requirements and due to administrative oversight.

The City will temporarily suspend the housing rehabilitation program pending a complete evaluation of the program, its guidelines and procedures. Upon completion of the evaluation, the City will make necessary changes to insure that the program is implemented in accordance with the local program guidelines, building and related codes, and HUD rules and regulations governing housing rehabilitation programs. Staff training will be a priority.

Corrective Actions

- 2A.** The City will contact all contractors whose work was unacceptable or not completed, to request that they correct the deficiencies. We will also initiate the process to have the code violations that were not cited in the work write-up, corrected. If the contractor refuses or is unable to correct the deficiencies, the City will advertise for bids for another contractor to complete the work.
- 2B.** The City will re-inspect all the houses (completed since January 1998) not inspected as part of the audit to determine items that were not completed, items completed in an unacceptable manner and items that were code violations and not included in work write-ups. After the re-inspections are completed, the contractors will be requested to correct the deficiencies listed in the work write-up. Also code violations not listed in the original work write-up will be corrected.
- 2C.** Any contractor who is unwilling to correct the deficiencies identified during the inspections or re-inspections or who is incapable of performing quality work will be removed from the list of qualified contractors. Additionally, the City will investigate available legal remedies in connection with unresponsive contractors.
- 2D.** The City will conduct an evaluation of each inspectors' capability for performing adequate inspections and work write-ups. Each inspector will also be evaluated as to the quality of formal training each has received. After the evaluation has been completed a training plan will be developed for each inspector lacking adequate training.
- 2E.** The City of Hattiesburg will review the policies and procedures governing its Emergency Repair Program and make changes to insure that emergencies are clearly defined and documented and that the program is administered in a consistent manner.

- 2F. After proper training and a complete understanding of the Rehabilitation Program, each inspector conducting inspections, work write-ups and cost estimates will be required to interpret and enforce local codes. All contractors will be notified of such enforcement.
- 2G. The City of Hattiesburg will review its rehabilitation policies and procedures and make changes to ensure that all future rehabilitation contracts are monitored to ensure work is performed in accordance with standards and specifications.
- 2H. The City will review its Housing Rehabilitation Program Guidelines to determine the necessity, feasibility, and reasonableness of increasing the maximum rehabilitation grant under its program. If the City increases the grant limit sufficiently to cover the additional costs of the house located at 208 East 5th Street, the City will award a contract to complete the work. If after review and analysis the City determines that the maximum grant amount will not be increased, the City will repay \$24,906 to its CDBG program. The reprogrammed funds will be used for eligible CDBG activities.

Finding 3 - The City Did Not Follow Proper Procurement Requirements

The City of Hattiesburg recognizes that through administrative error, it may not have procured all goods and services in accordance with Title 24 CFR 85.36 and other HUD Requirements. However, the City believes that the goods and services procured were reasonable and necessary although the staff may have failed to adequately document its files with cost estimates or cost and price analyses. Additionally, it appears that the Urban Development Department staff may have failed to adequately document sole source procurements although they were believed to be legal, proper, and most advantageous to the City.

Corrective Actions

- 3A. Upon receipt of the final audit, the City will compile documentation to support a determination that the Engineering and Consulting Services were reasonable and necessary. To establish the reasonableness of fees, the documentation will include, among other things, a comparative analysis of engineering fees for similar construction projects using the nationally accepted standards of the National Society of Professional Engineers. The costs of any engineering or consulting services that are not documented to be reasonable and necessary will be repaid to the CDBG program.

In the future, the City will procure professional services in accordance with an adopted professional services procurement policy. Among other things, prior to requesting proposals for professional services, the City will clearly define the scope of services to be provided and prepare a cost or price analysis to be used as a basis for establishing reasonableness of cost.

3B. The City of Hattiesburg will review and evaluate its existing procurement policies and make necessary changes that will insure that all procurement of goods and services will be in compliance with Title 24 CFR 85.36 and other HUD requirements. At a minimum the revised procurement policies will include requirements that ensure the following:

- (1) Sealed bidding is used when appropriate;
- (2) The lowest responsible bidder is selected;
- (3) Full and open competition is promoted;
- (4) Invoices are not paid unless an executed contract is properly in place; and
- (5) Sole Source procurements are not awarded unless in strict conformity with applicable state and federal law and the basis fully documented.

3C. All Contractors who do not perform acceptable work or will not correct unacceptable work will be subject to debarment.

Finding 4 - Controls Over Payroll Were Inadequate

The City of Hattiesburg believes that payroll costs charged to the CDBG program can be supported by time sheets evidencing that work was performed on CDBG activities. The City acknowledges that as a result of administrative error, files may not have been adequately kept and documented to support the payroll costs.

Corrective Actions

4A. In the event that adequate supporting documentation is not available to support the payroll costs charged to the CDBG program, the City will repay the CDBG program \$25,554 for payroll costs paid to the code enforcement inspector and four interns.

4B. The City will review its Financial Management Systems and establish and implement written policies and procedures to ensure payroll records are accurately documented, reviewed and approved. The policy and procedures will be developed in accordance with Title 24 CFR 85 and OMB Circular A-87.

Finding 5 - Controls Over Programs Needed Improvement

Overall, the City of Hattiesburg believes that its Community Development Programs are administered in accordance with HUD requirements and the laws of the State of Mississippi. The City does acknowledge that administrative errors have occurred in some areas and that controls over certain aspects of the programs need improvement. The City will undertake a comprehensive review of its financial management systems, procedures for monitoring CHDOs and sub-recipients, and procedures for responding to HUD's monitoring findings to insure that those findings and those cited in the Audit Report will not be repeated.

Corrective Actions

- 5A. The City will conduct a comprehensive review of its Financial Management Systems and make necessary corrections to ensure compliance with 24 CFR 85 and OMB Circular A-87.
- 5B. The City will review its procedure for monitoring CHDOs and sub-recipients and make necessary corrections to insure that CHDOs and sub-recipients are monitored and reviewed in a timely manner. A written policy and procedure will be established and implemented. At a minimum, CHDOs and sub-recipients will be monitored at least once a year. The City proposes to terminate contracts of any CHDO and sub-recipient who does not fulfill its contract requirements.
- 5C. The City will review its procedure for responding to HUD monitoring findings and will make necessary changes to insure that the City responds timely to HUD Monitoring Reports and implements corrective action. A written policy and procedure will be established and implemented.

Distribution

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Deputy Assistant Secretary for Administrative Services, Office of the Executive Secretariat, AX
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The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,
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The Honorable Dan Burton, Chairman, Committee on Government Reform,
United States House of Representatives, Washington DC 20515-6143
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