



T. Bert Fletcher, CPA, CGMA
City Auditor

HIGHLIGHTS

Highlights of City Auditor Report #1701

AUDIT SCOPE AND OBJECTIVES

The scope of this audit focused on the contracts between the City of Tallahassee (City) and the Big Bend Community Development Corporation (BBCDC), which were in effect during the period October 1, 2013, through September 30, 2016. The audited contracts include those relating to outstanding special project loans owed to the City by the BBCDC and those contracts relating to annual Community Development Block Grant (CDBG) awards. The purpose of this audit was to determine the extent to which the City's Housing and Human Services Department (Department) had ensured BBCDC compliance with the terms and conditions of City contracts.

WHAT WE CONCLUDED

Loan contracts had been properly authorized and were consistent with the City Commission's authorizations. However, the following issues were identified that led us to conclude that additional oversight was needed:

- In some agenda item presentations, facts relevant to the loan request could have been more fully disclosed.
- For one loan contract, it was not clear that the terms were fully consistent with the Commission's authorization.
- Department records did not include documentation showing the actual BBCDC use of advanced loan proceeds.
- Contract requirements relating to collateral and insurance were not always enforced.
- Generally, the projects financed by the City loans have not been completed.
- Timely actions were not taken when the City loans to the BBCDC became delinquent.

Enhanced oversight over the CDBG awards was also needed, as evidenced by the following:

- While in most cases, support was provided to substantiate the appropriateness of charges, unallowable and undocumented costs of \$27,510 (19% of CDBG funds provided) were detected.
- The BBCDC Executive Director hired his daughter to help administer BBCDC activities resulting in the appearance of a conflict of interests and a violation of contract provisions prohibiting nepotism.
- The BBCDC was not successful in providing many of the services included in the CDBG contracts. The limited success is attributable, at least in part, to a lack of financial resources.
- While there was some monitoring and oversight by the City's Housing Division, those monitoring and oversight efforts need to be enhanced.

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December 1, 2016

AUDIT OF CITY CONTRACTS WITH THE BIG BEND COMMUNITY DEVELOPMENT CORPORATION

Enhanced oversight was needed for special project loan contracts and annual Community Development Block Grant contracts between the City and the Big Bend Community Development Corporation. Recommendations were made to improve contract compliance and oversight.

WHAT WE RECOMMENDED

To facilitate enhanced oversight of the special project loans, we made the following recommendations:

- Staff should be reminded that agenda item presentations should include all facts relevant to the Commission's consideration of loan requests. Also, to enhance the vetting of potential special project loans and the related projects, the Department should request that the City Commission appoint a project review committee.
- All Department-sponsored loan contracts should be prepared in accordance with City Commission authorization or, if not clearly in accordance with that authorization, be submitted for Commission review and approval prior to execution.
- Future loan contracts should include provisions requiring that the loan recipient provide proof that advanced (loaned) funds have been used in accordance with contract requirements.
- The Department should take the steps necessary to ensure that contract requirements relating to collateral and insurance are enforced.
- Monitoring plans should be developed and executed for each special project loan.
- The Department should provide annually to the Commission a report on the status of all outstanding special project loans.

With respect to the Department's oversight over the CDBG grant contracts, we recommended:

- The Department should consult with the City Attorney's Office to ascertain if the BBCDC should be requested to return those CDBG grant funds, the usage of which was either unallowable or undocumented.
- The Department should consult with the City Attorney's Office on whether the Executive Director's employment of his daughter is a violation of contract terms prohibiting conflicts of interest and nepotism, and if so, the corrective actions to be taken.
- If the BBCDC is determined not to be financially viable, the Department should identify alternatives for providing the needed and desired services to low-income households.
- Significant enhancements should be made by the Department in regard to its grant monitoring and oversight processes. Specifically: (1) reimbursement requests should be reviewed in a manner to ensure BBCDC claimed costs are allowable, reasonable, supported and substantiated; and to ensure that the same costs are not claimed more than once; (2) required periodic performance reports should be reviewed for completeness and clarity, and to determine if they show goals are being met; and (3) more frequent site-visits should be conducted.

Audit of City Contracts with the Big Bend Community Development Corporation



Report #1701
December 1, 2016



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Table of Contents

Executive Summary..... 1
Scope, Objectives, and Methodology..... 11
Background..... 12
Audit Results, Issues, and Recommendations..... 16
Conclusion 56
Appointed Official’s Response 59

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Audit of City Contracts with the Big Bend Community Development Corporation



T. Bert Fletcher, CPA, CGMA
City Auditor

Report #1701

December 1, 2016

Executive Summary

The scope of this audit focused on City loan and grant contracts awarded to the Big Bend Community Development Corporation (BBCDC). With respect to the loan contracts, our audit disclosed that additional oversight will better ensure contract compliance and the protection of the City's interests. With respect to the grant contracts, we found that in many instances documentation was available to demonstrate that City grant funds had been used appropriately. However, we determined there was some use of those funds for unallowable, inappropriate, or unsubstantiated purposes. Also, our audit indicated that a lack of resources had contributed to the BBCDC's lack of success in providing many of the contracted services. Further, while there was some monitoring and oversight of the grant contracts, those monitoring and oversight efforts need to be enhanced.

The purpose of this audit was to determine the extent to which the City had ensured, and could demonstrate of record, BBCDC compliance with the terms and conditions of City contracts.

The scope of this audit focused on the contracts between the City of Tallahassee (City) and the Big Bend Community Development Corporation (BBCDC), which were in effect during the period October 1, 2013, through September 30, 2016. The audited contracts include those relating to outstanding special project loans owed to the City by the BBCDC, totaling approximately \$1,275,000, as of September 30, 2016, and those contracts relating to annual Community Development Block Grant (CDBG) awards to the BBCDC. For each of the three fiscal years included within the scope of this audit, the annual CDBG awards to the BBCDC totaled \$60,000. The purpose of this audit was to determine the extent to which the City had ensured, and could demonstrate of record, BBCDC compliance with the terms and conditions of City contracts.

Background

The Big Bend Community Development Corporation (BBCDC), formerly known as the Frenchtown Community Development Corporation, is a 501(c)(3) non-profit organization established in November 2000.

The Big Bend Community Development Corporation (BBCDC), formerly known as the Frenchtown Community Development Corporation, is a 501(c)(3) non-profit organization established in November 2000. The BBCDC is headed by a Board, and its day-to-day operations are managed by an executive director. The BBCDC's mission is to develop affordable housing, foster neighborhood economic development and job creation, preserve historic community assets, provide youth and senior services, and deliver educational programs.

During its existence, the BBCDC has contributed to the revitalization of Frenchtown through the development of affordable housing and the preservation of historical properties. BBCDC major capital projects and initiatives have included the construction of infill housing in the Frenchtown Community; the rehabilitation and restoration of two historically significant Frenchtown properties, the Tish Byrd House and Community Garden and the Casanas House; the acquisition of a third historic property, the Ashmore Property; and site acquisition and project planning for the Frenchtown Village Marketplace (now the planned site for the Casanas Village development).

The BBCDC has contributed to the revitalization of Frenchtown through the development of affordable housing, the preservation of historical properties, and participation in human service programs.

In addition to the capital projects, the BBCDC has provided human service program services to low-income individuals and families. Applicable programs included, for example, the GOOD 360 Donations and Community Pantry Program, the Queen Up Summer Camp Program (for young girls), and the Free Food Friday Program.

City grants and loans have provided most of the BBCDC's resources.

For calendar years 2013, 2014, and 2015, the BBCDC's financial statements (unaudited) indicate that the City's annual Community Development Block Grant (CDBG) contract award to the BBCDC was its major source of revenue. The annual CDBG awards to the BBCDC were made by the City from moneys received from the United States Department of Housing and Urban Development. (USDHUD) CDBG Program.

In prior periods, other City contributions to the BBCDC and its projects have included donations of City-owned land and the provision of special project loans to finance certain capital projects. As of September 30, 2016, outstanding special project loans owed

to the City by the BBCDC totaled approximately \$1,275,000. These outstanding loans consisted of the balance owed on a \$250,000 Line of Credit Loan provided in 2002 for use in constructing infill homes in the Frenchtown Community; the balance owed on a \$750,000 Line of Credit Loan provided in 2008 for use in constructing residential units in a planned mixed-use project referred to as the Frenchtown Village Marketplace; and the balance owed on a \$250,000 loan provided in 2004 for use in acquiring the Ashmore Property, a Frenchtown site of historic significance. CDBG moneys were used by the City to fund the Ashmore Property Loan. A City endowed fund, the Housing Trust Fund, was used to provide the other loans.

As of September 30, 2016, the BBCDC had made no loan repayments relative to the special project loans referenced above and all three of the loans were in a delinquent payment status. In November 2016, corrective actions were taken. More specifically, on November 10, 2016, in connection with the closing of the financing for the Casanas Village development, the City received a total of \$752,237, consisting of the \$682,237 balance due on the \$750,000 Line of Credit Loan and \$70,000 of the \$250,000 due on the \$250,000 Line of Credit Loan. With respect to the special project loan balances remaining due for the \$250,000 Line of Credit Loan and the Ashmore Property Loan, amended promissory notes were executed which provide loan maturity dates of January 1, 2019, and November 1, 2018, respectively. The payment status of each the special project loans is discussed in more detail in subsequent sections of this report.

As of September 30, 2016, the BBCDC had made no loan repayments relative to the outstanding special project loans and all three of the loans were in a delinquent payment status.

In November 2016, corrective actions were taken.

The Housing Division, of the City's Community Housing and Human Services Department is responsible for administering the contracts included within the scope of our audit.

The City's Community Housing and Human Services Department (formerly the Economic and Community Development Department) is responsible for administering the City's affordable housing and human services programs. The Department's Housing Division is responsible for administering contracts such as the ones included within the scope of our audit. To assist Housing Division staff in the proper and timely administration of Division responsibilities, the Division has developed a policy and procedure manual, which includes coverage of topics including, but not limited to, contract development and management, contract monitoring and audit

review, and lien/mortgage placement, satisfaction, and subordination.

Audit Results, Issues, and Recommendations

As indicated above, our audit focused on the contracts between the City and BBCDC. The audited contracts include those relating to the outstanding loans referred to above and the fiscal year (FY) 2014, 2015, and 2016 contracts relating to the annual CDBG awards to the BBCDC. Our audit disclosed the following:

Loan Contracts

We determined that the special project loans included within the scope of this audit had all been properly authorized by the City Commission and that, generally, the related loan contract terms and conditions were consistent with the Commission's authorizations. However, our audit did disclose several areas of concern, as follows:

- The agenda items relevant to the City Commission's consideration and authorization of the special project loans included within the scope of this audit were presented to the Commission at meetings occurring on various dates during the years 2004 through 2009. We found that these agenda item presentations were factual in most instances, but our audit did identify some agenda item presentations in which facts relevant to the loan authorization or modification (i.e., the status of other outstanding loans) could have been more fully disclosed. **We recommend** that staff be reminded that City administrative policies and procedures (APP 201) require that agenda item presentations include all relevant facts. Also, to enhance the vetting of potential special project loans and the related projects, **we recommend** that the City Commission appoint a project review committee consisting of the Department's Director and citizens with banking, construction, and affordable housing backgrounds. Reports of the committee should be made a part of agenda item presentations prepared in connection with future loan requests. (See Issue #1 on pages 23 through 26.)

Loans had been properly authorized and loan contracts were consistent with the Commission's authorizations. However, issues were identified that led us to conclude that additional oversight is needed over loan contracts.

We noted some agenda item presentations in which facts relevant to Commission loan authorization or modification could have been more fully disclosed.

For one loan, it was not clear that the loan contract terms and conditions were fully consistent with the Commission's loan authorization.

- For the \$750,000 Line of Credit Loan made for the Frenchtown Village Marketplace, it was not clear that the contract terms were fully consistent with the City Commission's authorization. The terms of the contract authorized the use of approximately \$500,000 of the loan proceeds to pay off an outstanding BBCDC debt owed to the Florida Housing Finance Corporation (for a predevelopment loan for the Frenchtown Village Marketplace), while the Commission authorization for the \$750,000 Line of Credit Loan specified that the loan shall be used by the BBCDC to construct residential units in the Frenchtown Village Marketplace. We found no evidence that the Commission had been asked to revisit this loan authorization or to approve the terms and conditions of the contract. In the future, **we recommend** that all Department-sponsored loan contracts be prepared in accordance with City Commission authorization or, if not clearly in accordance with that authorization, be submitted for Commission review and approval prior to execution. (See Issue #2 on page 26.)

Department records did not always include documentation showing the actual BBCDC use of advanced Line of Credit loan proceeds.

- The City records made available for our examination did not in several respects include documentation sufficient to allow a determination that the amounts advanced under Line of Credit contracts were used solely for the contractually authorized purposes. We noted that neither the \$250,000 Line of Credit Loan contract for constructing infill homes nor the \$750,000 Line of Credit Loan contract for the Frenchtown Village Marketplace included terms and conditions establishing a mechanism that would readily facilitate the City's ability to obtain documentation showing that the loaned City moneys had been used only for the purposes authorized, and that any advanced and unused loan proceeds had been timely returned to the City. **We recommend** that future contracts include provisions requiring that the loan recipient provide proof that the advanced (loaned) funds have been used in accordance with contractual terms and conditions. (See Issue #3 on pages 27 through 28.)

Contract requirements relating to collateral and insurance were not always timely enforced.

- The Department had not taken the steps necessary to ensure that contract requirements relating to collateral and insurance coverages had been enforced. (See Issue #4 on pages 29 through 32.) More specifically:

- The Department did not take the steps necessary to enforce contract requirements requiring the delivery of mortgages to collateralize the \$250,000 Line of Credit Loan for constructing infill housing. As a result, no collateral was provided for the loan at the time the loan proceeds were advanced in fiscal year 2002. Security was subsequently provided, but not until November 8, 2016, when the BBCDC provided a mortgage encumbering certain BBCDC-owned property. For any future, similar contracts, **we recommend** that the Department ensure the timely provision of all required collateral.
- The Department had not periodically inspected the collateral provided for the \$250,000 Ashmore Property Loan. The collateral included the Ashmore building and its contents, consisting of antiques, political paraphernalia, and collectibles. **We recommend** that the Department physically inspect the Ashmore building on an annual basis to determine whether it is being maintained in good condition, as required by contract. **We also recommend** that the City obtain from the BBCDC a list of the Ashmore Property antiques, political paraphernalia, and collectibles and annually verify the existence and condition of the items.
- The Department had not documented whether the BBCDC had provided appropriate insurance coverages. **We recommend** that the City obtain on annual basis a certificate of insurance and determine that the properties provided as collateral are appropriately insured.
- As a part of our audit, we observed the status of the loan-financed projects. For the \$250,000 Line of Credit Loan to construct infill housing, we were unable to determine the status of the City-financed project. Generally, the other projects financed by City loan contracts have, to date, not been completed. We noted that the status of these projects was infrequently reported to the Commission (primarily only when new loans or loan amendments were requested). **We recommend** that the Department annually update the Commission on the status of these and other similar City-financed projects. (See Issue #5 on pages 32 through 34.)

Generally, the projects financed by the City loans have not been completed.

Monitoring plans had not been timely developed and implemented for the City loan contracts.

- The Housing Division's policy and procedure manual requires that loans, such as the three loans addressed in this audit report, be monitored individually on a case-by-case basis appropriate to the terms of the loan and that the monitoring include a periodic review of the repayment of the amounts due. Our audit disclosed no evidence that timely monitoring plans had been developed for these contracts, and the Department did not take prompt actions when the City loans to the BBCDC became delinquent. The timely implementation and effective application of monitoring plans may have better ensured prompt collection and Commission notification and action when necessary. **We recommend** that monitoring plans be timely developed and executed for each of the outstanding special project loan contracts and for all future special project loan contracts. (See Issue #6 on pages 34 through 36.)

The overall results of our audit indicate that additional oversight over the status of outstanding loans and the related projects is needed.

The overall results of our audit indicate that additional oversight over the status of outstanding special project loans and the related projects is needed. Accordingly, **we** further **recommend** that the Department provide annually to the Commission a report on the status of all outstanding loans, showing for each outstanding loan, the debtor organization, the status of the related project, the loan amount authorized, the amount disbursed, the repayments received, the balance due, the due date, the sufficiency of collateral and insurance, a description of the actions taken to collect any past-due loans and the results, and any recommendations for Commission actions.

CDBG Contracts

While adequate support was provided to substantiate appropriate uses of many of the City CDBG grant funds, we determined there was some use of those funds for non-allowable or inappropriate purposes. We also found that adequate support was not always available to substantiate some uses of those funds. Furthermore, we found that the BBCDC was not successful in providing many of the contracted services. Lastly, while there was some monitoring and oversight by the City's Housing Division of the contracts, those

monitoring and oversight efforts need to be enhanced. The issues that resulted in this overall conclusion are summarized as follows:

While in most cases, support was provided to substantiate the BBCDC's appropriate use of CDBG grant contract funds, there was some non-allowable, inappropriate, and undocumented use detected.

- CDBG grant funds in the amount of \$7,659, representing over 5% of the grant funds paid to the BBCDC to date, were used to reimburse the BBCDC for non-allowable or inappropriate purposes. **We recommend** the Department consult with the City Attorney's Office to ascertain if the BBCDC should be requested to return CDBG grant funds for the described non-allowable and/or inappropriate uses. (See Issue #7 on pages 42 through 45.)
- Adequate records were not provided to substantiate the goods and services received by the BBCDC for expenditures totaling \$19,851 (representing 14% of the grant funds paid to the BBCDC to date) which were reimbursed from City CDBG funds. **We recommend** the Department enhance the reviews of BBCDC reimbursement requests and, in the future, only reimburse those costs that are adequately documented and substantiated by the BBCDC. **We also recommend** the Department consult with the City Attorney's Office to ascertain if the BBCDC should be requested to return CDBG grant funds for those costs that cannot be substantiated by the BBCDC. (See Issue #8 on pages 45 through 47.)
- The BBCDC Executive Director hired his relative (daughter) to help administer BBCDC activities funded from City CDBG funds; resulting in the appearance of a conflict of interests and a violation of contract terms prohibiting nepotism. **We recommend** the Department consult with the City Attorney's Office on this matter. If deemed a violation of the contractual provisions addressing conflicts of interests or nepotism, the City should no longer reimburse the BBCDC for the related costs. (See Issue #9 on page 47.)

The BBCDC Executive Director hired his daughter to help administer BBCDC activities, resulting in the appearance of a conflict of interests and a violation of contract terms prohibiting nepotism.

The BBCDC was not successful in providing many of the services included in the CDBG contracts. The limited success is attributable, at least in part, to a lack of financial resources.

While there was some monitoring and oversight by the City's Housing Division, those monitoring and oversight efforts need to be enhanced.

Although federal and state spending plans are subject to City Commission review and approval, the City's Annual Budget does not include as resources the estimated grant revenues expected by the Department from federal and state resources. Also, the budget does not address the planned uses, if any, of Housing Trust Fund resources.

- Overall, the BBCDC had limited success in achieving its contractual goals related to providing neighborhood revitalization services to the low income community. The limited success is attributable, at least in part, to a lack of BBCDC financial resources to complete contractual requirements. If the BBCDC is determined not to be financially viable, **we recommend** City management identify alternatives for providing the needed and desired services to low-income households. (See Issue #10 on pages 48 through 52.)
- The Department needs to enhance its oversight and monitoring of recipients that receive City grants and contracts. **We recommend** that significant enhancements be made by the Department in regard to its monitoring and oversight process. Specifically: (1) reimbursement requests should be reviewed in a manner to ensure BBCDC costs, on which the requests are based, are allowable, reasonable, supported and substantiated; and to ensure the same costs are not included on more than one reimbursement request; (2) required periodic performance reports should be reviewed for completeness and clarity, and to determine if they demonstrate the extent to which the contractual goals are being met; and (3) more frequent site-visits should be conducted to review and observe BBCDC records and activities for the purpose of determining and verifying the BBCDC successes (or lack of successes) in achieving contractual goals. (See Issue #11 on pages 53 through 55.)

Other Matters

In the City's annual budget, the planned expenditures for all of the Department's programs and activities are shown as appropriated from the City's General Fund. The related budget narrative does indicate that state and federal resources are expected to be available to assist in the funding of the Department. Although spending plans for federal and state resources are submitted annually to the City Commission for review and approval, the City's annual budget does not include as resources the estimated grant revenues expected from

federal and state resources. Also, we noted that the budget does not address the planned uses, if any, of Housing Trust Fund resources. **We recommend** that future City budgets for the Department include as resources the grant revenues expected from federal and state resources. **We** also **recommend** that the budget for the Department address the planned uses, if any, of Housing Trust Fund resources. (See page 55.)

Action Plan

Management has developed action plan steps to address the identified issues and recommendations. Appendix A provides Management's Action Plan to address the issues and our recommendations.

Acknowledgments

This audit was included on the City Auditor's annual audit plan and conducted in response to concerns expressed to the City's Independent Ethics Officer by a citizen. Because of the expressed concerns, the Ethics Officer included the City Auditor in a subsequent meeting with a number of citizens. Based on that meeting, a determination was made by the City Auditor that the potential risks warranted an audit. We would like to acknowledge the City's Independent Ethics Officer, whose role and efforts contributed to the decision to conduct this audit.

We would also like to thank the Executive Director of the BBCDC and staff in the Community Housing and Human Services Department, Accounting Services, and the Office of the City Attorney for their assistance during this audit.

Audit of City Contracts with the Big Bend Community Development Corporation



T. Bert Fletcher, CPA, CGMA
City Auditor

Report #1701

December 1, 2016

Scope, Objectives, and Methodology

The audited contracts include those relating to outstanding loans totaling approximately \$1,275,000 and those relating to annual Community Development Block Grant (CDBG) awards to the BBCDC.

The overall purpose of this audit was to determine the extent to which the City had ensured, and could demonstrate of record, BBCDC compliance with the terms and conditions of contracts.

The scope of this audit focused on the contracts between the City and the Big Bend Community Development Corporation (BBCDC), which were in effect during the period October 1, 2013, through September 30, 2016. The audited contracts include those relating to outstanding special project loans owed to the City by the BBCDC, totaling approximately \$1,275,000, as of September 30, 2016,¹ and those contracts relating to annual Community Development Block Grant (CDBG) awards to the BBCDC. For each of the three fiscal years included within the scope of this audit, the annual CDBG awards to the BBCDC totaled \$60,000. The loan and CDBG contracts included within the scope of this audit are described in more detail in subsequent sections of this report.

The overall objective of this audit was to determine the extent to which the City had ensured, and could demonstrate of record, BBCDC compliance with the terms and conditions of contracts. More specifics as to the scope, objectives, and methodology for the audited loan contracts and the audited CDBG contracts are provided in applicable sections of this report.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit to obtain sufficient,

¹ With respect to loan contracts, the scope of this audit included only the special project loans owed to the City by the BBCDC (Please see Table 1 and succeeding paragraphs on pages 16 through 20 for additional information on the audited loan contracts.). The City also provides loans to individuals in connection with other programs, such as, for example, the Housing Rehabilitation and Reconstruction Program and the Housing Down Payment Assistance Program. Loan contracts relating to these other programs were not included within the scope of the audit.

appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The City's Community Housing and Human Services Department is responsible for administering the City's affordable housing and human services activities and programs.

During the audit period, federal and state awards to the City for housing and human services ranged in amount from approximately \$3.1 million in fiscal year 2014 to approximately \$3.8 million in fiscal year 2015. Each year, the largest of the awards received came from the CDBG Program.

Community Housing and Human Services Department

The City's Community Housing and Human Services Department (formerly the Economic and Community Development Department) is responsible for administering the City's affordable housing and human services activities and programs. These activities and programs include, but are not limited to, public facility renovations and improvements; affordable housing acquisition, construction, and rehabilitation; lead-based paint testing; neighborhood revitalization; and emergency housing and assistance.

The City's affordable housing and human service programs are funded primarily by federal and state grants approved and appropriated each year by the City Commission. The federal and state awards for the fiscal years 2014, 2015, and 2016 ranged in amount from approximately \$3.1 million in fiscal year 2014 to approximately \$3.8 million in fiscal year 2015. In each of these fiscal years, the largest of the awards received came from the Community Development Block Grant (CDBG) Program of the United States Department of Housing and Urban Development (USDHUD), with those grants ranging in amount from approximately \$1.81 million for the 2016 fiscal year to approximately \$1.85 million for fiscal year 2015. Other federal and state funding sources include the USDHUD HOME Investment Partnership Program, the USDHUD Emergency Solutions Grant Program, and the State Housing Initiatives Partnership (SHIP) Program.

The City's (as well as any subgrantee's) usage of the federal and state awards is governed by multiyear and annual City planning documents and by applicable federal and state laws and rules.

The City's usage of the federal and state awards received is governed by multiyear and annual City planning documents, which are submitted to and approved by the applicable federal (USDHUD) and state (Florida Housing Finance Corporation) grantor agencies, and by applicable federal and state laws and rules. For the USDHUD awards, the referenced planning documents include Annual Action Plans. USDHUD requires the City to develop, and submit for approval, Annual Action Plans that detail the City's proposed use of applicable federal funds. Each Annual Action Plan must be publicly vetted and approved by the City Commission, prior to submission of the Plan to USDHUD. The Annual Action Plans for recent years provided for the City to award the BBCDC \$60,000 from CDBG funds, to be used by the BBCDC for neighborhood revitalization.

Moneys in the City's Housing Trust Fund are available to finance housing activities. Generally, these moneys are made available through Commission-approved loans.

In addition to the funding provided by federal and state grants, moneys in the City's Housing Trust Fund are available to finance housing activities. Moneys in this Fund, initially capitalized by a Commission authorized endowment of \$2.2 million, are governed by investment strategies adopted by the City Commission in 1992. According to these strategies, moneys in the Fund may be made available through interest and non-interest bearing loans, although grants may also be awarded up to the amount of Fund earnings. Such loan or grant requests are to be submitted to the City Commission for review and approval. Fund net assets totaled approximately \$2.5 million at September 30, 2015.

Department activities and programs are executed by City employees or by contractors, such as the BBCDC.

The Department's activities and programs are executed by either employees of the Department or by a contractor, such as the BBCDC. In those instances in which the activities or programs are to be executed by a contractor, the applicable Department division is responsible for administering the related contract and ensuring that the terms and conditions of the contract are followed by the City and by the contractor.

The Housing Division, of the City's Community Housing and Human Services Department, is responsible for administering the contracts included within the scope of our audit.

The Housing Division, within the City's Community Housing and Human Services Department, is responsible for administering the BBCDC contracts included within the scope of this audit. To assist Division staff in the proper and timely administration of their responsibilities, the Division has developed a policy and procedure manual, which provides coverage of topics including, but not limited to, contract development and management, contract monitoring and audit review, and lien/mortgage placement, satisfaction, and subordination.

Big Bend Community Development Corporation

The BBCDC is a 501(c)(3) non-profit organization established in November 2000.

The contracts included within the scope of this audit are between the City and the BBCDC. The BBCDC, formerly known as the Frenchtown Community Development Corporation, is a 501(c)(3) non-profit organization established in November 2000. The BBCDC is headed by a Board, and its day-to-day operations are managed by an executive director. The BBCDC's mission is to develop affordable housing, foster neighborhood economic development and job creation, preserve historic community assets, provide youth and senior services, and deliver educational programs.

The BBCDC has contributed to the revitalization of Frenchtown through the development of affordable housing, the preservation of historical properties, and the delivery of human service programs.

During its existence, the BBCDC has contributed to the revitalization of Frenchtown through capital project initiatives, including the development of affordable housing and the preservation of historical properties. Such projects have included the construction of infill housing in the Frenchtown Community; the rehabilitation and repair of existing Frenchtown housing stock; the acquisition and restoration of two historically significant Frenchtown properties, the Tish Byrd House and Community Garden and the Casanas House; and the acquisition of a third historic property, the Ashmore Property.

A major capital project initiative of the BBCDC has been the Frenchtown Village Marketplace. According to an agenda item presentation, the project was not completed because final financing for the project could not be obtained as a result of the recession. The BBCDC now plans to construct Casanas Village on the Frenchtown Village Marketplace project site.

One of the major capital project initiatives of the BBCDC has been the Frenchtown Village Marketplace development, which was introduced during a City Commission meeting on August 28, 2002. According to subsequent agenda item descriptions, the BBCDC, with City and state assistance, acquired and cleared the 2.3 acre site on which the development was to be built and received site plan approval in June 2005. The Frenchtown Village Marketplace project was described in a July 11, 2007, City Commission agenda presentation as a mixed-use development consisting of 12 market-rate townhomes, eight affordable apartment style condominium units, a 15,000 square foot office building containing 5,000 square feet of street level retail space, and an open market square for small vendor kiosks. According to an April 22, 2015, City Commission meeting agenda item presentation the Frenchtown Village Marketplace project was not completed because, as a result of the recession, the BBCDC was unable to secure the final financing for the project.

The BBCDC and the Pinnacle Housing Group (as the Frenchtown Square Partners, LLC) are now pursuing the development of the Casanas Village project on the Frenchtown Village Marketplace site. According to the April 22, 2015, agenda item presentation, the Casanas Village development is to include 88 housing units (20 one-bedroom units, 52 two-bedroom units, and 16 three-bedroom units) and 2,000 square feet of retail space. With respect to the housing units, 79 are to be rented to low-income households and nine are to be market-rate units.

The BBCDC has also provided human service program services to low-income individuals and families.

In addition to the capital projects, the BBCDC has provided human service program services to low-income individuals and families. Current programs, which are described in more detail in Tables 2 through 4 (see pages 37 through 40), include the GOOD 360 Donations and Community Pantry Program, the Queen Up Summer Camp Program (for young girls), and the Free Food Friday Program.

For calendar years 2013, 2014, and 2015, the BBCDC's financial statements (unaudited) indicate that the City's CDBG contract award was the BBCDC's major source of revenue.

For calendar years 2013, 2014, and 2015, the BBCDC's financial statements (unaudited) indicate that the City's annual CDBG contract award (\$40,000, \$60,000, \$60,000, respectively) was the BBCDC's major source of revenue. The BBCDC's other significant revenue consisted of the net income generated by the BBCDC's affordable housing rental units, averaging approximately \$18,000 per year. In prior periods, other City contributions to the BBCDC and its projects have included donations of City-owned land and the provision of loans to finance certain capital projects. Also, as a partner in the development of the Casanas Village project, other revenues, including developer fees, will be collected by the BBCDC.

Audit Results, Issues, and Recommendations

The scope of this audit focused on the contracts between the City and the Big Bend Community Development Corporation (BBCDC), which were in effect during the period October 1, 2013, through September 30, 2016. The audited contracts include those relating to outstanding special project loans owed to the City by the BBCDC, and those contracts relating to annual Community Development Block Grant (CDBG) awards to the BBCDC. Audit results, issues, and recommendations are presented in succeeding paragraphs.

LOAN CONTRACTS

As of September 30, 2016, the BBCDC owed to the City approximately \$1,275,000 in unpaid loans. Table 1 provides information for each of these BBCDC obligations. Additional details regarding each of these loans, such as payments received subsequent to September 30, 2016, if any, and the date of loan authorization, purpose, term, and funding source, are provided under succeeding report subheadings.

Table 1 Big Bend Community Development Corporation Loans Payable to the City As of September 30, 2016				
Loan Description	Interest Rate (Percent)	Principal Amount Due	Interest Amount Due	Total Due
\$250,000 Line of Credit Loan (City Contract #285)	0.00	\$250,000	\$ 0	\$250,000
\$750,000 Line of Credit Loan (City Contract #1720)	0.00	682,237	0	682,237
\$250,000 Ashmore Property Loan	3.00	250,000	92,615	342,615
Totals		\$1,182,237	\$92,615	\$1,274,852

\$250,000 Line of Credit Loan

On January 23, 2002, the City Commission approved a three-year, 0% interest, \$250,000 line of credit loan to the BBCDC. The loan proceeds were to be used to construct five new infill houses in the Frenchtown community.

On January 23, 2002, the City Commission approved a three-year, 0% interest, \$250,000 line of credit loan to the BBCDC (known at that time as the Frenchtown Community Development Corporation). The loan proceeds were to be used to construct five new infill houses in the Frenchtown community.

The loan was financed with Housing Trust Fund moneys and the loan was to be advanced on a home-by-home, revolving basis. The plans for each home were to be approved by the City, and each advance from the Line of Credit was to be secured by a credit note and mortgage (held by the City) on the applicable home, until the home was sold by the BBCDC. Upon the closing of the sale of each of the constructed homes, the amounts advanced from the Line of Credit were to then be repaid to the City and be made available for the construction of additional homes during the three-year term of the contract.

The total of the loan proceeds were advanced pursuant to two contract pay requests, one on June 28, 2002, in the amount of \$82,400 and the second on September 3, 2002, in the amount of \$167,600. The first contract pay request is supported by a cost estimate which shows an identified home site at 517 Copeland

Street. The second contract request does not clearly identify specific building sites.

As indicated above, the loan had an initial three-year term. The City Commission on July 11, 2007, approved a renewal and extension of the term of the loan, and pursuant to the resulting amended contract, the loan term was extended to March 31, 2013 (five years commencing March 31, 2008).

As of September 30, 2016, no loan repayments had been received by the City. Subsequently, a renewed and amended note dated November 8, 2016, was executed which includes a loan repayment schedule consisting of four payments and a final maturity date of January 1, 2019. Pursuant to the renewed and amended note, the first loan repayment of \$70,000 was due immediately upon the BBCDC's closing of the financing for the Casanas Village development. That payment was received by the City on November 10, 2016, and as of that date, the unpaid balance due on the note totaled \$180,000. The renewed and amended note provides that the remaining three installments shall be made within two business days of the date of the BBCDC's receipt of its Casanas Village developer's fees.

\$750,000 Line of Credit Loan

Pursuant to a February 19, 2003, Commission authorization, a \$500,000, 0% interest, Housing Trust Fund line of credit was established for the purpose of constructing residential units in the Frenchtown Village Marketplace. Notwithstanding that this line of credit was established in 2003, no contract was executed until March 2008, and no moneys were advanced until June 2008. The establishment of the contract and the subsequent disbursement of funds followed a July 11, 2007, Commission meeting during which the Commission established the \$750,000 Line of Credit by approving a \$250,000 increase in the above-described initial \$500,000 loan authorized on February 19, 2003.

Actions by the City Commission authorized a \$750,000 Line of Credit to be used for the purpose of constructing residential units as a part of the planned Frenchtown Village Marketplace development.

The \$750,000 Line of Credit loan due date was March 31, 2013. On November 10, 2016, upon the BBCDC's closing of the Casanas Village development, the City received the total amount due (\$682,237).

Proceeds from the Ashmore Property Loan were used by the BBCDC to acquire the Ashmore Building and its contents (a collection of antiques, artifacts, and political memorabilia).

A total of \$682,237 has been advanced under the contract, with the last advance being made on December 29, 2010. The majority of the moneys advanced (approximately \$553,000) was used to retire a BBCDC debt owed to the Florida Housing Finance Corporation (FHFC) relative to a predevelopment loan for the Frenchtown Village Marketplace. Other moneys were disbursed primarily for engineering and architectural services (\$126,000) related to the Frenchtown Village Marketplace Development. The loan due date was March 31, 2013, and as of September 30, 2016, no loan repayments had been received by the City.

On November 10, 2016, upon the BBCDC's closing of the Casanas Village development, the City received the total amount due on the loan (\$682,237). As noted in the background section of this report, the Casanas Village project is to be constructed on the site initially acquired for the Frenchtown Village Marketplace.

Ashmore Property Loan

The \$250,000 Ashmore Property Loan was authorized by the City Commission on May 12, 2004. Proceeds of this 3% interest, CDBG Fund loan, were used by the BBCDC to purchase the historical Ashmore Property, consisting of the Ashmore site, building, and building contents, which has been described as including antiques, artifacts, and political memorabilia. Once preserved and restored by the BBCDC, the building is to be used to display the antiques, artifacts, and political memorabilia and to house a "1930s era boutique ice cream parlor and soda fountain."

As of September 30, 2016, principal and interest due for the Ashmore Property Loan totaled \$342,615. The original due date for this loan was May 27, 2006, which was subsequently extended to December 9, 2010, on December 9, 2009. As of September 30, 2016, no repayments had been received by the City. Subsequently, an amended promissory note dated November 8, 2016, in the amount of \$343,147 (\$250,000 in principal and \$93,147 in accrued interest) was executed. The amended promissory note suspended the further accrual of interest (unless an event of default occurs) and

requires that the entire balance of the note be repaid by November 1, 2018.

Audit Objectives - Loan Contracts

With respect to the three loan contracts included within the scope of the audit, our audit objectives were to:

- Determine whether the loans had been authorized by the City Commission and whether the related agenda item presentations fairly described all facts material and relevant to the Commission's consideration of the loan request and any subsequent extension.
- Determine whether the terms of the loan contract are consistent with the City Commission's authorization, as reflected in applicable City Commission minutes.
- Determine the extent to which loan disbursement and other documentation demonstrate compliance with the terms of loan contracts, mortgages, and promissory notes governing the use of the loan proceeds.
- Determine the extent to which the City's interests have been protected through the recording of mortgages and the periodic inspection of collateral.
- Determine the status of the projects financed by the loans.
- Determine the timeliness and effectiveness of the steps taken to collect the loan amounts due.

Audit Procedures – Loan Contracts

We accomplished our loan contract-related audit objectives by:

- Interviewing appropriate City and BBCDC management and staff.
- Obtaining and reviewing the applicable contracts and any related amendments.

Audit objectives relative to the loan contracts were to determine whether the loans were properly authorized; the contracts were consistent with the authorization; City records document BBCDC compliance; the loans were collateralized; the financed projects were completed; and timely and effective steps were taken to collect the amounts due.

To accomplish our audit objectives, we performed various audit procedures.

- Obtaining an understanding of the City Commission authorization of each of the loans by reviewing the related City Commission minutes and the applicable agenda item presentations.
- Comparing the City Commissions loan authorizations to the terms and conditions of the executed contracts.
- Identifying those contract terms which we considered significant.
- Obtaining and reviewing the records which we believed would be useful sources of evidence of City enforcement and BBCDC compliance with the identified significant loan terms.
- Identifying relevant controls and testing their effectiveness.
- Testing the extent to which the City's records demonstrate compliance with significant loan contract terms and conditions.

Overall Audit Results – Loan Contracts

We determined that the loans included within the scope of this audit had all been properly authorized by the City Commission and that, generally, the related loan contracts were consistent with the Commission's authorization. However, our audit did disclose several areas of concern, as follows:

- The agenda items relevant to the City Commission's consideration and authorization of the special project loans included within the scope of this audit were presented to the Commission at meetings occurring on various dates during the years 2004 through 2009. We found that these agenda item presentations were factual in most instances, but our audit did identify some agenda item presentations in which facts relevant to the loan authorization or modification (i.e., the status of other outstanding loans) could have been more fully disclosed. (*See Issue #1.*)

- For the \$750,000 Line of Credit Loan, it was not clear that the contract terms were fully consistent with the City Commission's authorization. The terms of the contract authorized the use of approximately \$500,000 of the loan proceeds to pay off an outstanding BBCDC debt owed to the Florida Housing Finance Corporation (a predevelopment loan for the Frenchtown Village Marketplace). The Commission authorization for the \$750,000 Line of Credit Loan specifies that the loan shall be used by the BBCDC to construct residential units in the Frenchtown Village Marketplace. *(See Issue #2.)*
- The City records made available for our examination did not in several respects include documentation sufficient to allow a determination that the amounts advanced under loan contracts were used solely for the contractually authorized purposes. *(See Issue #3.)*
- Upon the advancement of loan proceeds to the BBCDC, the Department did not take the steps necessary to enforce contract requirements requiring the delivery of mortgages to collateralize the \$250,000 Line of Credit Loan. Also, the Department had not periodically inspected the collateral provided for the \$250,000 Ashmore Property Loan. Further, the Department had not documented whether the BBCDC had provided appropriate insurance coverages. *(See Issue #4.)*
- For the \$250,000 Line of Credit Loan, we were unable to determine the status of the City-financed project. Generally, the other projects financed by City loan contracts have not to date been completed. *(See Issue #5.)*
- The Department did not take timely actions when the City loans to the BBCDC became delinquent. *(See Issue #6.)*

The overall results of our audit indicate that additional oversight of the status of outstanding loans and the related projects is needed.

The overall results of our audit indicate that additional oversight of the status of these outstanding loans and the related projects is needed. Accordingly, in addition to the specific recommendations made in the following report section, **we recommend** that the

Department provide annually to the Commission a report on the status of these outstanding loans, showing for each outstanding loan the debtor organization, the status of the related project, the loan amount authorized, the amount disbursed, the repayments received, the balance due, the due date, the sufficiency of collateral and insurance, a description of the actions taken to collect any past-due loans and the results, and any recommendations for Commission actions.

Our audit disclosed some instances in which facts relevant to loan authorization or modification could have been more fully disclosed in agenda item presentations.

Issue #1 – Agenda item presentations provided in connection with Commission consideration of loan authorizations or modifications were factual in most instances, but our audit did disclose some instances in which relevant facts could have been more fully disclosed. As a part of our audit, we obtained an understanding of the City Commission’s authorization of each of the three outstanding loans. To obtain that understanding, we reviewed the loan authorization as described in the City Commission minutes, and we also reviewed the related written agenda item presentations that were submitted for City Commission consideration.

APP 201 provides management’s policies and procedures relative to the preparation, review, and submission of City Commission agenda item presentations.

The agenda item presentations generally include a statement of the issue, a recommended action, a fiscal impact statement, and a section presenting historical information and facts and optional courses of action. City Administrative Policy and Procedure (APP) 201 provides that agenda item presentations are to be prepared by department staff and reviewed by City management prior to public posting and distribution to each City Commissioner, each appointed official, and other members of City management.

APP 201 further provides that it is management’s policy to provide to the City Commission facts and advice on matters of policy and that City departments have the responsibility to provide factual, concise, and timely written agenda item presentations. With respect to requests for new loans or modifications of existing loans, relevant facts would include information concerning the status of other currently outstanding loans.

Based on our audit, we concluded that the agenda items presented for Commission consideration relative to the three loan contracts included within the scope of our audit were factual in most instances. However, our audit did disclose the following instances in which agenda item presentations could have more fully disclosed information concerning the status of existing, significant other outstanding BBCDC loans:

- Two Commission actions have been identified relative to the \$250,000 Ashmore Property Loan, one occurring on May 12, 2004, and one on December 9, 2009. Based on a review of those agenda item presentations and an understanding of other outstanding BBCDC obligations, we concluded that additional disclosures would have been appropriate, as follows:
 - On May 12, 2004, pursuant to agenda item 45, the Commission approved staff's recommended action to make the \$250,000 Ashmore Property Loan. The agenda item presentation provided in support of the recommendation did not disclose the balance owed by the BBCDC on a Florida Housing Finance Corporation (FHFC) predevelopment loan (approximately \$400,000) for the Frenchtown Village Marketplace development. Also, the agenda item presentation did not disclose the \$250,000 due from the BBCDC to the City on the \$250,000 Line of Credit Loan.
 - On December 9, 2009, pursuant to agenda item 17, the Commission approved the extension of the \$250,000 Ashmore Property Loan due date by one year from the date of approval (that is, extended the due date to December 10, 2010). The agenda item presentation indicates that the BBCDC had not been able to secure expected grant funding or conventional financing and, thus, was requesting the extension of that loan's due date. In recommending the extension of the loan, staff did not disclose in the agenda item presentation the status of other outstanding City loans to the BBCDC, including the \$250,000 Line of Credit Loan

In some instances, agenda item presentations recommending new or modified loans did not include information concerning the status of existing, significant outstanding BBCDC debts.

and the approximately \$600,000 that had been advanced as of December 9, 2009, pursuant to the \$750,000 Line of Credit Loan.

- The Commission on July 11, 2007, pursuant to agenda item 22, authorized the renewal and a five-year extension of the \$250,000 Line of Credit Loan (Contract 285) for continuation of the BBCDC's housing development activities. This Commission action also increased to \$750,000 a \$500,000 Line of Credit Loan (Contract 1720) originally authorized on February 19, 2003. Our review of this agenda item presentation disclosed that, similar to the May 12, 2004, agenda item presentation discussed above, it omits a discussion of the balance due on a FHFC predevelopment loan (approximately \$400,000) for the Frenchtown Village Marketplace development. Also, the agenda item presentation does not disclose the \$250,000 balance due on the \$250,000 Line of Credit Loan.

Staff should be reminded to include all relevant material facts in agenda item presentations. Also, to enhance the vetting of future applications for loans, we recommend that the Commission appoint a project review committee.

Agenda item presentations which do not include all material, relevant facts do not meet the requirements of APP 201 and do not effectively support the Commission's decision-making processes. **We recommend** that staff be reminded that APP 201 requires that agenda item presentations are to include all relevant facts. Also, to enhance the vetting of potential special project loans and the related projects, **we recommend** that the City Commission appoint a project review committee consisting of the Department's Director and citizens with banking, construction, and affordable housing backgrounds. Reports of the committee on requests for assistance should be made a part of agenda item presentations prepared in connection with loan requests. Matters to be considered by the review committee should include, but not be limited to, a determination of the financial feasibility of the project, an evaluation of public support for the project, a determination that the project is a priority and is consistent with the City's affordable housing and community revitalization goals, as appropriate; a determination of the appropriateness of the funding source; and a

consideration of the requesting organization's capability to successfully execute the project and timely repay the loan.

Issue #2 – For one loan contract, it was not clear that the contract terms were fully consistent with the City Commission authorization. For the \$750,000 Line of Credit Loan, both the February 19, 2003, authorization and the July 11, 2007, amendment thereof specify that the loan proceeds will be used "...for the construction of residential units in the Frenchtown Village Marketplace." In comparing the Commission's authorization to the terms of the contract, we found that the Draw Schedule included as Exhibit B of the contract provides for the repayment of the FHFC predevelopment loan and for the balance of the funds to be used for project site improvements. As indicated under the heading **\$750,000 Line of Credit Loan**, the loan proceeds were advanced in accordance with the contract. That is, loan proceeds were advanced for the purpose of repaying the predevelopment loan and for paying project site improvement costs.

For the \$750,000 Line of Credit Loan, Commission authorizations specify that the loan proceeds will be used to construct residential units in the Frenchtown Village Marketplace. However, the loan contract provides for the use of some of the proceeds to retire a FHFC predevelopment loan.

While the use of the money for improvements to the project site could be considered consistent with the Commission specification that the moneys will be used "...for the construction of residential units in the Frenchtown Village Marketplace," it is less clear that the use of the money to retire the BBCDC's FHFC debt was consistent with the Commission's authorization.

We found no evidence that the Commission had been asked to revisit this loan authorization or to approve the terms and conditions of the contract. In the future, **we recommend** that all Department-sponsored loan contracts be prepared in accordance with City Commission authorization or, if not clearly in accordance with that authorization, be submitted for Commission review and approval prior to execution.

City records provided for our review did not contain reports from the BBCDC or other records (e.g., cancelled BBCDC checks) showing how the moneys advanced under the \$250,000 Line of Credit Loan had actually been used.

Issue #3 – The City records made available for our examination did not, in several respects, include documentation sufficient to allow a determination that the amounts advanced under loan contracts were used solely for authorized purposes. In order to provide working capital, loan proceeds were often advanced by the City to the BBCDC upon the BBCDC's submission of a contract payment request. To ensure that the moneys advanced under the loan contracts were actually used only for authorized purposes, the City should have also required from the BBCDC the submission of proof-of-payment documentation (such as, for example, cancelled BBCDC checks and vendor invoices showing services and goods received and vendor receipt of payment). For some loan disbursements, we found proof-of-payment documentation in City records. However, proof-of-payment documentation was not always available. More specifically:

- According to the \$250,000 Line of Credit Loan contract, the amounts advanced were to be used by the BBCDC to construct new infill houses in the Frenchtown community. Our audit disclosed that contract advances were paid by the City to the BBCDC upon the BBCDC's submission of contract payment request forms accompanied by home construction cost estimates. However, City records provided for our review did not contain reports from the BBCDC or other records (e.g., cancelled BBCDC checks) showing how the advanced moneys had actually been used. As a result, we were unable to determine from the records provided for our review how these advanced funds were ultimately used. We did note that the July 11, 2007, agenda item presentation (discussed in previous sections of this report) indicates that the \$250,000 Line of Credit Loan funding had been used by the BBCDC to clear the Frenchtown Village Marketplace site and design and develop that project. It is unclear that such a use of these loan proceeds is authorized under the terms of the \$250,000 Line of Credit Loan contract, which, as indicated above, requires that the amounts advanced be used to construct infill houses.

For the \$750,000 Line of Credit Loan, the City did not require that the BBCDC provide documentation showing that the amounts advanced had been used to pay, in full, the vendor invoices submitted with the advance requests.

- Under the \$750,000 Line of Credit Loan, moneys for Frenchtown Village Marketplace site development were advanced based upon the BBCDC's submission of copies of unpaid vendor invoices and/or a BBCDC invoice. The City did not require that the BBCDC subsequently provide an accounting for all amounts advanced and proof-of-payment documentation (e.g., cancelled BBCDC checks) showing that the amounts advanced had been used to pay the vendor invoices submitted with the advance requests. Further, our audit tests disclosed that the BBCDC did not always remit to the vendors the full payment amount advanced by the City. Specifically, our audit tests disclosed an instance in which the City advanced to the BBCDC \$45,050, the total amount due to a vendor as shown by vendor invoices accompanying the BBCDC's request for the advance. However, we located correspondence between the vendor and the BBCDC showing that, as of the date of the correspondence, only \$25,000 of the vendor-invoiced amount of \$45,050 had been remitted to the vendor by the BBCDC, leaving a balance of \$20,050 past due. In addition, because the vendor had not received full payment, a subsequent vendor invoice submitted to the BBCDC included the past-due balance of \$20,050. This invoice was submitted to the City as part of a request for an advance, and the City advanced moneys sufficient to pay the invoice in full, including the \$20,050 in past-due charges, resulting in a duplicated advance of that amount.

We noted that neither the \$250,000 Line of Credit Loan contract nor the \$750,000 Line of Credit Loan contract includes terms and conditions establishing a mechanism that would readily facilitate the City's ability to obtain documentation showing that the advanced City moneys had been used only for the purposes authorized and that any advanced and unused loan proceeds had been timely returned to the City. **We recommend** that future contracts include provisions requiring the recipient of advanced funds to provide sufficient evidence that payments have been made in accordance with contractual terms and conditions.

Issue #4 – The Department had not taken the steps necessary to ensure that contract requirements relating to collateral and insurance coverages had been enforced. To protect the City's interests, loans should be collateralized by real and personal property and that property should be periodically inspected to determine its condition. Also, the City should ensure BBCDC compliance with contract terms requiring the provision of insurance coverages. Our audit disclosed the following instances in which sufficient actions had not been taken to protect the City's interests:

Although required by the \$250,000 Line of Credit Loan contract, the Department did not require that the BBCDC deliver mortgages to collateralize the loan.

- The \$250,000 Line of Credit Loan Contract (Contract 285), as a condition of advancing funds for the construction of new infill homes in the Frenchtown Community, requires that the BBCDC deliver to the City a credit note and mortgage (with City named as mortgagee) for each housing unit for which funds are advanced. Our audit disclosed that credit notes and mortgages were not provided by the BBCDC, and notwithstanding the absence of the credit notes and mortgages, the City, during fiscal year 2002, disbursed to the BBCDC all moneys available under the contract. Absent the delivery and recording of the required credit notes and mortgages, the City's \$250,000 Line of Credit Loan was unsecured. Subsequent to the period covered by this audit, on November 8, 2016, the BBCDC executed a mortgage in favor of the City. Specifically, the BBCDC provided a mortgage on the BBCDC property located at 421 West Georgia Street (Tish Byrd House and Community Gardens), together with all improvements erected on the property and all related easements, appurtenances, and fixtures. Notwithstanding this recent action, the loan remained unsecured for the 14-year period 2002 through 2016.

The Department had not periodically inspected the collateral associated with the Ashmore Property Loan.

- To secure the \$250,000 Ashmore Property Loan, a mortgage and promissory note were executed and recorded in the public records of Leon County. However, the following additional steps necessary to the protection of the City's interests in the property as collateral had not been taken:

We observed some damage to the exterior of the Ashmore building that may make the building's interior and contents more vulnerable to damage.

- The mortgage requires that the mortgaged property be maintained in good condition and repair. To ensure that the property is being maintained in good condition and repair, the property should be periodically inspected by the City Housing Division. Our audit disclosed no evidence that the City Housing Division had periodically inspected the Ashmore property. As a part of our audit, audit staff and the BBCDC Executive Director visited the Ashmore property. As shown by the image in **Figure 1**, we observed some damage to the exterior of the building that may make the building's interior and contents more vulnerable to damage. On the date of our visit, building contents observed included various building supplies, furniture, and boxes which the Executive Director said contained the items referenced in the next bullet.

Figure 1
Picture of Ashmore Building Store Front
(Top of Front Door)
Taken August 1, 2016



- The mortgage provides that the Ashmore Property Loan is to also be secured by the antiques, political paraphernalia, and collectibles acquired as a part of the Ashmore Property. According to a November 2009 email from the Department's director in response to a City Commissioner's questions, the appraised value of the antiques, political paraphernalia, and collectibles was approximately \$81,000 and included numerous items, including for example, antique Coca Cola bottles, license plates, posters, photos, maps, games, magazines, toys, stoves, bicycles, and furniture. The email also indicates that some of the items [magazines, posters, maps, photos, and games (in original boxes)] require acid-free museum-like storage and that these items were being stored in the heated and cooled environment of the BBCDC's Office. To ensure the continuing sufficiency of the security for the Ashmore Property Loan, the City Housing Division should periodically inspect a sample of these items to ensure their presence and assess their condition. The Housing Division was unable to locate evidence showing that an inspection of the items had been conducted. Further, neither the BBCDC nor the City has been able to locate a listing of the antiques, political paraphernalia, and collectibles. During a visit to the BBCDC's Office on August 8, 2016, audit staff asked to observe the items being stored in the heated and cooled environment of the BBCDC's Office. The Executive Director advised us that the only inventory items stored in the BBCDC's office of which he was aware were four pieces of furniture, which we observed to be in good condition.

The Housing Division was unable to locate evidence showing that an inspection of the Ashmore antiques, political paraphernalia, and collectibles had been conducted. Further, neither the BBCDC nor the City has been able to locate a listing of the items.

- The mortgages associated with both the \$750,000 Line of Credit Loan and the \$250,000 Ashmore Property Loan require that the BBCDC provide appropriate insurance coverages. To ensure compliance with these mortgage terms, the City's Housing Division should require the BBCDC to annually provide proof-of-insurance. The City's Housing Division had not required the BBCDC to provide proof of insurance. As part of our audit, we

The Department had not required the BBCDC to provide proof of insurance where applicable.

requested that the BBCDC provide to us evidence of relevant insurance coverages, and evidence of insurance was provided. We have forwarded the information to the Housing Division.

Based on the noted circumstances, **we recommend** the following:

- For any future, similar contracts, the Department should ensure the timely provision of all required collateral.
- The Department should on an annual basis physically inspect the Ashmore building and determine whether it is being maintained in good condition, as required by contract.
- The Department should require from the BBCDC a detailed list of the Ashmore Property antiques, political paraphernalia, and collectibles and periodically determine the existence and condition of items.
- The Department should on an annual basis obtain a certificate of insurance and determine that properties provided as collateral are appropriately insured.

Issue #5 – As a part of our audit, we observed the status of the loan-financed projects. For the \$250,000 Line of Credit Loan, we were unable to determine project status or results. Generally, the other projects financed by loan contracts have not to date been completed. As noted above, the proceeds of the \$250,000 Line of Credit Loan were to be used by the BBCDC to construct infill housing in the Frenchtown Community; the proceeds of the \$750,000 Line of Credit Loan were to be used to construct residential units in the planned Frenchtown Village Marketplace development; and the proceeds of the \$250,000 Ashmore Property Loan were to be used to purchase the Ashmore Property (site, building, and building contents, including a collection of antiques, artifacts, and political memorabilia) so it may function as a museum. Our audit disclosed the following with respect to the status of each of these projects:

For the \$250,000 Line of Credit Loan, we were unable to determine project status or results.

An April 22, 2015, City Commission meeting agenda item presentation indicates that the Frenchtown Village Marketplace project was not completed because, as a result of the recession, the BBCDC was unable to secure the final financing for the project.

The Ashmore Property has not been returned to a condition that would allow it to be opened safely to the public. The BBCDC has indicated that it has been unable to secure grants or other financing that would allow the necessary improvements to the Ashmore Property.

- As noted in Issue #3, with respect to the \$250,000 Line of Credit Loan, we were unable to determine from the City records provided for our review how the loan proceeds were ultimately used. As a consequence, we were unable to determine project status or results. As noted above, City records provided for our review did not contain reports from the BBCDC or other records showing specifically how the proceeds had been used.
- As indicated in the background section of this report, an April 22, 2015, City Commission meeting agenda item presentation indicates that the Frenchtown Village Marketplace project was not completed because, as a result of the recession, the BBCDC was unable to secure the final financing for the project. As noted under the report heading **\$750,000 Line of Credit Loan**, a total of \$682,237 had been advanced under the \$750,000 Line of Credit Loan contract. The BBCDC now plans to construct the Casanas Village project, an alternative project, on the Frenchtown Village Marketplace project site. [A closing for the Casanas Village development occurred on November 10, 2016, and on that date the loan amount due (\$682,237) was repaid to the City.]
- The Ashmore Property was acquired by the BBCDC in 2004. Although the BBCDC reports making repairs to the roof and structure of the building, the building has not been returned to a condition that would allow it to be opened safely to the public. Also, as noted in Issue #4, at the time of our audit, the location and condition of all of the items of the Ashmore collection of antiques, artifacts, and political memorabilia were not readily determinable. The BBCDC has indicated that it has been unable to secure grants or other financing that would allow the necessary improvements to the Ashmore Property.

We noted that the status of each of these projects was infrequently reported to the Commission (primarily only when new loans or loan amendments were requested). **We recommend** that the Department

annually update the Commission on the status of these and other similar City-financed projects.

Issue #6 - The Department did not take timely actions when City loans to the BBCDC fell into a delinquent status.

In the event that a loan is not repaid when due, timely actions should be taken by the Department to resolve the delinquency. If not satisfactorily resolved, the Department should take appropriate action and inform the Commission of the status and actions taken. Those actions may range from recommending to the Commission that the loan be forgiven, to a last-resort action involving the initiation of foreclosure proceedings (available as an option for those loans for which collateral has been provided). As indicated below, the Department did not take timely actions when City loans to the BBCDC fell into a delinquent status:

The Department did not take timely actions when the \$250,000 Line of Credit Loan was not paid when due.

- Although the original term of the \$250,000 Line of Credit Loan contract expired on September 3, 2005, it was not presented for Commission reconsideration until July 11, 2007. In the July 11, 2007, meeting, the City Commission authorized the extension of this contract, and subsequently, its term was extended through March 31, 2013. No loan repayments were received during this extended term, and further actions to address the loan delinquency were not requested of the Commission until the July 13, 2016, City Commission meeting. The applicable July 13, 2016, agenda item presentation indicated that the City and the BBCDC were negotiating a repayment plan to satisfy the obligations due under the \$250,000 Line of Credit Loan (and as discussed further below, the obligations due under the Ashmore Property Loan as well). Subsequently, as further described under the Loan Contracts report subheading, a renewed and amended note dated November 8, 2016, was executed which includes a loan repayment schedule and a final maturity date of January 1, 2019. Pursuant to the renewed and amended note, the first loan repayment of \$70,000 was due immediately upon the BBCDC's closing of the Casanas Village development. That payment was received by the City on November 10, 2016,

and as of that date, the remaining unpaid balance due on the note totaled \$180,000.

Actions to address the delinquent status of the \$750,000 Line of Credit Loan were not timely.

- The amount due under the \$750,000 Line of Credit Loan (Contract 1720) totaled \$682,237, as of September 30, 2016. The BBCDC was to use the loan proceeds for the construction of the Frenchtown Village Marketplace development, and the moneys realized through the sale of the homes in the development were to be used to repay the loan. As discussed in the Background section of the report, the BBCDC determined that the construction of the Frenchtown Village Marketplace was not feasible and no home construction on the site has occurred. The balance due on this loan, which was secured by a mortgage on the Frenchtown Village Marketplace site (now considered the Casanas Village site), first became delinquent on March 31, 2013. Actions to address the loan delinquency were not requested of the Commission until the April 22, 2015, City Commission meeting. In the applicable agenda item presentation for the April 22, 2015, City Commission meeting, the Department reported on the BBCDC's plans for the development of the Casanas Village project and that the amount due to the City pursuant to the \$750,000 Line of Credit Loan (\$682,237) was to be repaid upon the anticipated closing of the financing for the project. Subsequently, on November 10, 2016, in connection with the closing, the City received the amount due on the loan (\$682,237).

Upon management's recommendation, the Commission extended the Ashmore Property loan due date to December 9, 2010. The loan has not been repaid and actions to address the loan delinquency were not timely.

- For the Ashmore Property Loan, the \$250,000 loan balance first became due on May 27, 2006. The loan was not repaid at that time and the loan delinquency was not addressed until December 9, 2009, when, upon management's recommendation, the City Commission extended the loan due date by one year (to December 9, 2010), with an additional extension possible following consideration of community financial circumstances. No loan repayments were received during this extended term, and further actions to address the loan delinquency were not

requested of the Commission until the July 13, 2016, City Commission meeting. As noted above, the applicable July 13, 2016, agenda item presentation indicated that the City and the BBCDC were negotiating a repayment plan to satisfy the obligations due under the Ashmore Property Loan (\$250,000, plus accrued interest). Subsequently, on November 8, 2016, actions to address the loan delinquency resulted in the execution of an amended promissory note in the amount of \$343,147 (\$250,000 in principal and \$93,147 in accrued interest). The amended promissory note requires that the entire balance of the note be repaid by November 1, 2018, and suspends the accrual of interest (unless an event of default occurs).

Monitoring plans had not been timely developed for the special project loan contracts.

The Housing Division's policy and procedure manual requires that loans, such as the three loans addressed in this audit report, be monitored individually on a case-by-case basis appropriate to the terms of the loan and that the monitoring include a periodic review of the repayment of the amounts due. Our audit disclosed no evidence that a monitoring plan had been timely developed and executed for these contracts. The timely implementation and effective application of such monitoring plans may have better ensured prompt collection and Commission notification and action when necessary. **We recommend** that monitoring plans be developed and executed for the \$250,000 Line of Credit Loan and the Ashmore Property Loan and for all future special project loans.

CDBG CONTRACTS

Within the CDBG Contracts section of the audit report, we provide the results of our audit of recent annual CDBG grants by the City to the BBCDC for neighborhood revitalization.

In the preceding section of this report we addressed the results of our review and analysis of the status and activity relating to specific loans made by the City to the BBCDC. As described in that report section, those grants and loans were funded with CDBG (the Ashmore Property Loan) and Housing Trust Fund moneys (the \$250,000 Line of Credit Loan and the \$750,000 Line of Credit Loan). Within this **CDBG Contracts** section of the audit report, we provide the results of our review and analysis of recent annual CDBG grants by the City to the BBCDC for neighborhood

revitalization. Grants reviewed included those awarded to the BBCDC for fiscal years (FYs) 2014, 2015, and 2016. As FY 2016 was still ongoing during the audit, our review of activity for the FY 2016 grant was limited to the first quarter of that fiscal year. Each of the three annual grants was for \$60,000, with grants for all three years totaling \$180,000.

FY 2014, 2015, and 2016 CDBG Contracts

For the three City CDBG awards addressed in this audit, the respective contracts provided for specific neighborhood revitalization services. The target population identified by the contracts included low-income individuals and families who reside in Frenchtown and throughout the City, but more specifically in the City’s low-income neighborhoods. For the first two awards (FYs 2014 and 2015), the contracts also provided for special programs to benefit low and very low-income, single-parent families with young girls between the ages of 7 and 17 years. The contracts for each of the three years provided for services to be rendered to a minimum of 1,500 individuals and families. Specific services to be funded by City-provided CDBG funds, by contract year, are shown in the following tables.

The target population identified by the contracts included low-income individuals and families who reside in Frenchtown and throughout the City, but more specifically in the City’s low-income neighborhoods.

TABLE 2 SPECIFIED CONTRACTUAL SERVICES FY 2014 (City Contract 3138) - \$60,000 Grant	
1.	<p>Support for operation and functioning of the facilities and properties housing the BBCDC. Those properties include the Tish Byrd House and Community Gardens and the Casanas House, all located in close proximity to each other. These properties serve as the BBCDC’s focal point for the delivery of services. Examples of activities to be held at these facilities and properties include homeownership counseling, health screenings, business development workshops, nutrition counseling, community events, and distribution of donated foods. The contract provided that the BBCDC would host a minimum of four educational and cultural events at these facilities during the contract year.</p>
2.	<p>Pay predevelopment costs for a planned affordable housing development. At the date the contract was awarded, the BBCDC envisioned and planned to partner with another entity to construct 85 one-bedroom units of affordable senior rental housing on the property originally acquired for the Village Marketplace Development, which did not come to fruition as described in another section of this audit report. The CDBG funds were planned to be used to help pay related predevelopment costs for items such as market studies, flyers for public meetings on the planned development, maintenance of the property, etc. Actual construction of the housing unit would be funded from other (non-CDBG) sources.</p>

3.	Operation of the GOOD 360 Donations and Community Pantry Program. Under this program, the BBCDC pays to partner with retail stores (e.g., Home Depot, Bed Bath & Beyond) that donate slow-moving and obsolete inventory to charitable organizations. Donated items include nonperishables such as apparel, books, toys, personal care products, office and school supplies, computers, etc. The BBCDC pays to participate in the program and pays the costs associated with picking up and transporting the donated items, which are distributed by the BBCDC to various participating pantries within the City that offer the items to low and very-low income seniors and families.
4.	Hosting a summer camp (Queen Up) for young girls. The BBCDC planned to host an eight-week summer camp to provide essential life skills to young girls to encourage healthy maturation, development, and formation of healthy relationships.
5.	Operation of the Free Food Friday Program. Under this program, BBCDC staff travels to the Farm Share Distribution Office in Quincy (neighboring city) to pick up donated food items that are provided to eligible low income households, free of charge, on Friday mornings at the BBCDC’s Tish Byrd House located in Frenchtown.
<i>Note:</i>	<i>Contract provides for a minimum of 1,500 low or moderate-income households to be served through the above services for the contract year.</i>

**TABLE 3
SPECIFIED CONTRACTUAL SERVICES
FY 2015 (City Contract 3412) - \$60,000 Grant**

1.	Support for operation and functioning of the facilities and properties housing the BBCDC. Those properties include the Tish Byrd House and Community Gardens and the Casanas House, all located in close proximity to each other. These properties serve as the BBCDC’s focal point for the delivery of services. Examples of activities to be held at these facilities and properties include homeownership counseling, health screenings, business development workshops, nutrition counseling, community events, and distribution of donated foods. <i>(Unlike the prior year contract, this contract did not specify a minimum number of events that would be held during the contract year.)</i>
2.	Pay predevelopment costs for a planned unit of affordable housing. At the date the contract was awarded, the BBCDC envisioned and proposed to construct one unit of affordable housing that would be made available for lease to or purchase by a low or moderate-income household (family). The CDBG funds were planned to be used to help pay related predevelopment costs for items such as market studies, maintenance of the applicable property, etc. Actual construction of the housing unit would be funded from other (non-CDBG) sources.
3.	Operation of the GOOD 360 Donations and Community Pantry Program. Under this program, the BBCDC pays to partner with retail stores (e.g., Home Depot, Bed Bath & Beyond) that donate slow-moving and obsolete inventory to charitable organizations. Donated items include nonperishables such as apparel, books, toys, personal care products, office and school supplies, computers, etc. The BBCDC pays to participate in the program and pays the costs associated with picking up and transporting the donated items, which are distributed by the BBCDC to various participating pantries within the City that offer the items to low and very-low income seniors and families.
4.	Hosting a summer camp (Queen Up) for young girls. The BBCDC planned to host an eight-week summer camp to provide essential life skills to young girls to encourage healthy maturation, development, and formation of healthy relationships.

5.	Operation of the Free Food Friday Program. Under this program, BBCDC staff travels to the Farm Share Distribution Program in Quincy (neighboring city) to pick up donated food items that are provided to eligible low income households, free of charge, on Friday mornings at the BBCDC’s Tish Byrd House located in Frenchtown.
<i>Note:</i>	<i>Contract provides for a minimum of 1,500 low or moderate-income households to be served through the above services for the contract year.</i>

**TABLE 4
SPECIFIED CONTRACTUAL SERVICES
FY 2016 (City Contract 3572) - \$60,000 Grant**

1.	Support for operation and functioning of the facilities and properties housing the BBCDC. Those properties include the Tish Byrd House and Community Gardens. <i>(NOTE: Unlike the contracts for the two previous years, costs associated with maintaining the Casanas House, which is in close proximity to the Tish Byrd House, were to be paid from the “affordable housing predevelopment category” addressed in item 2 below.)</i> These properties serve as the BBCDC’s focal point for the delivery of services. Examples of activities to be held at these facilities and properties include homeownership counseling, health screenings, business development workshops, nutrition counseling, community events, and distribution of donated foods. The contract provided that the goal of the BBCDC would be to host a minimum of five community concerts (cultural events) during the contract year, to be attended by a total of 500 to 750 people.
2.	Pay predevelopment costs for: (1) two planned affordable housing units for eligible low-income veterans and their families and (2) an 88-unit mixed income development. At the date the contract was awarded, the BBCDC envisioned and proposed to construct two units of affordable housing for low income veterans and their families using HOME CHDO funding anticipated to be awarded by the City, and to construct an 88-unit development on the property originally planned for the Village Marketplace Development that would serve low and moderate-income families. The CDBG funds were planned to be used to help pay related predevelopment costs for items such as market studies, flyers for public meetings on the planned developments, maintenance of the properties, etc. Plans included incorporating the Casanas House, owned by the BBCDC and addressed in item 1 above, into the 88-unit development.
3.	Operation of the GOOD 360 Donations and Community Pantry Program. Under this program, the BBCDC pays to partner with retail stores (e.g., Home Depot, Bed Bath & Beyond) that donate slow-moving and obsolete inventory to charitable organizations. Donated items include nonperishables such as apparel, books, toys, personal care products, office and school supplies, computers, etc. The BBCDC pays to participate in the program and pays the costs associated with picking up and transporting the donated items, which are distributed by the BBCDC to various participating pantries within the City that offer the items to low and very-low income seniors and families. The contract provides that an estimated 1,000 people will be served through this program.
4.	Repair, maintenance, and improvements to the Ashmore Building, a historical building and property owned by the BBCDC. The BBCDC planned to use the Ashmore House as a temporary warehouse to store building materials received under the GOOD 360 program (i.e., to be used in connection with future BBCDC construction of planned affordable housing or donated to low-income families). The BBCDC also planned to eventually renovate that building and property for retail space that would complement the planned 88-unit housing development described in item 2 above.
<i>Note:</i>	<i>Based on the descriptions indicated above, the contract provides for a minimum of 1,500 low or moderate-income households to be served through the above services for the contract year.</i>

The three respective contracts each contained certain provisions that governed the administration of the contracted services and the City's management and oversight of those services. Provisions that were pertinent to the scope of this audit are described as follows.

The BBCDC was to be compensated from City CDBG grant funds on a reimbursement basis.

- The BBCDC was to be compensated from City CDBG grant funds on a reimbursement basis for approved (allowable) program related expenditures upon the BBCDC's submission of proper documentation of the expenses and their payment by the BBCDC. Advances of funds needed to pay grant eligible costs were allowed at the discretion of the City. However, documentation was still required to be submitted to substantiate those expenses paid from advanced funds.

Under the contracts, conflicts of interests and nepotism were prohibited.

- No employee, officer, or agent of the BBCDC shall participate in the administration of the contract if a conflict of interest, real or apparent, would be involved. The BBCDC also was required to "covenant" (attest) that in the performance of the contracted services no such persons having a conflict of interest shall be employed. Furthermore, the BBCDC was prohibited from using CDBG funds for certain activities, including those involving nepotism.

Written progress reports were to be provided by the BBCDC on a quarterly basis.

- The BBCDC was required to provide the City written reports on a quarterly basis reflecting progress in completing the contracted services (specified in Tables 2 through 4 above).

The City is to monitor the contractual performance of the BBCDC.

- The City will monitor the performance of the BBCDC with respect to completion of the contracted services.

Audit Objectives – CDBG Contracts

The objectives of our audit of the CDBG-funded grants awarded to the BBCDC were to:

For the CDBG contracts, our audit determined whether grant fund use was documented and in compliance with contract terms; contract goals and objectives were achieved; and BBCDC performance was effectively monitored.

- Determine if the grant funds were used by the BBCDC for allowable, appropriate, and reasonable purposes.
- Determine if the BBCDC maintained adequate records to demonstrate and support the uses of the grant funds.

- Determine the extent to which the BBCDC achieved the stated contractual goals and objectives.
- Determine the adequacy of the City Housing Division's monitoring and oversight of the grant activity.

Audit Procedures – CDBG Contracts

To complete our audit objectives, we performed several procedures, to include:

- Reviewing contracts awarded to the BBCDC.
- Reviewing grant reimbursement requests submitted by the BBCDC to the City's Housing Division.
- Reviewing BBCDC records documenting uses of the grants funds and programmatic goals achieved.
- Meeting with and interviewing City Housing staff responsible for monitoring and reviewing grant activity.
- Making inquiries of and meeting with and interviewing the BBCDC Executive Director on multiple occasions to gather information, documentation, and explanations.
- Making site visits to locations that benefitted from the use of grant funds.

While in many instances, the appropriate use of CDBG grant funds was documented, we determined there was some non-allowable, inappropriate, and undocumented use. Also, the BBCDC was not successful in providing some services. Further, monitoring and oversight need to be enhanced.

Overall Audit Results – CDBG Contracts

While adequate support was provided to substantiate appropriate uses of many of the City CDBG grant funds, we determined there was some use of those funds for non-allowable or inappropriate purposes. We also found that adequate support was not always available to substantiate some uses of those funds. Furthermore, we found that the BBCDC was not successful in providing many of the services for which it had contracted to provide. Lastly, while there was some monitoring and oversight by the City's Housing Division of the contracts, those monitoring and oversight efforts need to be enhanced. The issues that resulted in this overall conclusion are described in the following paragraphs of this report.

Issue #7 – CDBG grant funds in the amount of \$7,659, representing over 5% of the grant funds paid to the BBCDC to date, were used to reimburse the BBCDC for non-allowable or inappropriate purposes. As indicated previously in the background section of this report, the City awarded three annual grants of \$60,000 each in the last three years to the BBCDC, for a total of \$180,000. As of the date of our audit fieldwork in early summer 2016, the City had paid the BBCDC a total of \$142,251 under those contracts. Those payments were comprised of \$60,000 each for the fiscal year 2014 and 2015 annual grants, and \$22,251 paid to date for the fiscal year 2016 grant.

CDBG grant funds in the amount of \$7,659, representing over 5% of the grant funds paid to the BBCDC to date, were used for non-allowable or inappropriate purposes.

As part of our audit, we obtained the reimbursement requests and attached support submitted by the BBCDC to the City Housing Division when requesting payment of those CDBG grant funds. We found that, upon their review of those reimbursement requests, the City Housing Division had approved payment of the requested grant funds (\$142,251) to the BBCDC. However, our audit review of those requests and attached support resulted in multiple questions regarding the allowability and appropriateness of several expenditures. In an effort to obtain answers to our questions, we initially met with Housing Division management and staff. They were not successful in providing answers to our questions and indicated the Housing Division contract manager for the majority of the period covered by the three contracts was no longer employed by the City (and is now deceased as indicated by the City Housing Division). Accordingly, as suggested by Housing Division management, we met with the BBCDC Executive Director to discuss our audit questions, obtain and review available BBCDC records, and make necessary on-site observations. The BBCDC Executive Director was able to provide answers and documentation to resolve some of our questions. However, through our interviews, reviews of BBCDC records, and related audit observations, we identified the following expenditures that should not have been reimbursed from CDBG grant funds:

Reimbursed expenditures totaling \$3,335 were incurred in connection with the repair, maintenance, and insurance of BBCDC - owned affordable housing units. These expenditures were not allowable under the contract.

Reimbursed expenditures of \$917 related to the personal cell phone charges of the former BBCDC Executive Director.

- Expenditures totaling \$3,335 incurred in connection with repair, maintenance, and insurance of BBCDC - owned affordable housing units. Those expenditures are not allowable uses of the City CDBG grant funds. Those expenditures should have instead been paid from revenues collected by the BBCDC for rentals of the applicable housing units. Expenditures inappropriately reimbursed from City CDBG funds were incurred for pest extermination services (\$273), insurance (\$2,714), utilities (\$253), and repair costs (\$95). In response to our inquiry, the BBCDC Executive Director acknowledged those costs should not have been paid from City CDBG grant funds.
- Expenditures in the amount of \$917 incurred by the former BBCDC Executive Director for personal cell phone charges incurred subsequent to her employment with the BBCDC. These costs were incurred and paid by the BBCDC for the months of October 2014 through February 2015. The employment contract executed between the BBCDC and the former Executive Director provided for payment of “all reasonable expenses” incurred in connection with her employment. However, the former Executive Director was no longer employed by the BBCDC during the noted months (i.e., resignation was effective September 30, 2013). In response to our inquiry, the BBCDC Executive Director acknowledged those costs should not have been paid from City CDBG funds.
- Expenditures in the amount of \$282 incurred by the current BBCDC Executive Director for personal goods acquired at a pharmacy. This cost was incorrectly included in the reimbursement request submitted by the current Executive Director in October 2015. The Executive Director reimbursed the BBCDC the \$282 subsequent to our audit inquiry on this matter.

Duplicate reimbursement requests were submitted by the BBCDC and paid by the City. Resulting overpayments totaled \$2,223.

A duplicate reimbursement of fuel costs resulted in an overpayment of \$80.

Although exempt, the BBCDC sometimes paid and requested City reimbursement of state sales taxes.

- Expenditures in the amount of \$2,223 inappropriately included in more than one reimbursement request and, as a result, reimbursed twice by the City. We determined an insurance premium, contract payment, fuel charge, utilities payment, and other program costs were each included on two different reimbursement requests submitted to the City. The City Housing Division staff did not detect these duplicate requests for reimbursement and as a result paid the BBCDC twice for these costs. In response to our inquiry, the BBCDC Executive Director acknowledged the BBCDC had been inappropriately reimbursed twice for those costs.
- Expenditures for costs of \$80 that were incorrectly paid twice to a BBCDC staff member, and consequently inappropriately reimbursed twice by the City. In this instance a BBCDC staff member was advanced \$80 to purchase fuel for a truck rented to pick up items donated under the GOOD 360 Program. However, after the trip the staff member was also reimbursed \$100 for actual fuel costs incurred during that trip. Accordingly, the BBCDC over-reimbursed the staff member \$80. The BBCDC inappropriately requested and was reimbursed by the City for both the \$80 advance and the \$100 in actual fuel costs, resulting in an overpayment by the City of \$80.
- State of Florida sales taxes totaling \$357 paid by the BBCDC on purchases of goods and services reimbursed by the City. As the BBCDC is an organization that is exempt from State of Florida sales taxes, it should have made a greater effort to ensure vendors did not charge, and the BBCDC did not pay, those sales taxes. Regardless, because the BBCDC is tax exempt, the City should not have reimbursed the BBCDC for those instances where it did pay those taxes. In response to our inquiry, the BBCDC Executive Director acknowledged those instances, but also indicated it had sometimes been difficult to have applicable vendors grant the tax exemptions.

Late fees, utility disconnect fees, and a returned check bank charge were reimbursed by the City.

- Various expenditures totaling \$465 and representing charges to the BBCDC for not making timely payments for services reimbursed by the City. Those charges represented late fees, utility disconnect fees, and a returned check bank charge. In response to our inquiry, the BBCDC Executive Director acknowledged those instances, but indicated the fees were incurred at times when the BBCDC's had cash flow issues. Notwithstanding that circumstance, it was not appropriate for City CDBG grant funds to be used to reimburse the BBCDC for those charges.

We recommend the Department consult with the City Attorney's Office to ascertain if the BBCDC should be requested to return CDBG grant funds for the described non-allowable and/or inappropriate uses.

Issue #8 – Adequate records were not provided to substantiate the goods and services received by the BBCDC for expenditures totaling \$19,851 (representing 14% of the grant funds paid to the BBCDC to date) which were reimbursed from City CDBG funds. While adequate support was provided for many uses of the City CDBG grant funds, adequate records were not provided by the BBCDC to substantiate the following expenditures that were reimbursed from those funds:

- Evidence was not provided to fully substantiate payments totaling \$15,600 made to individuals, who were hired and paid in 2013 and 2014 to travel to Panama City Beach and Destin to pick up and transport items donated by participating stores under the GOOD 360 Program. A total of \$300 was paid for each of 88 trips, and based on invoices submitted to the City as support for reimbursement from CDBG grant funds, the amounts reimbursed totaled \$26,400. Records (such as participating store documents listing the items donated) were provided by the Executive Director to substantiate the purpose of 36 of the 88 trips. However, no such records have been

The records provided did not fully substantiate \$15,600 in GOOD 360 Program transportation costs.

provided for the remaining 52 trips, for which payments totaling \$15,600 were made.

Gas receipts were not provided to substantiate payments of \$719 to BBCDC staff for purchases of fuel.

- Gas receipts were not provided to substantiate payments of \$719 to BBCDC staff for purchase of fuel in connection with transport of donated items collected under the GOOD 360 Program.

Vendor invoices were not always provided to substantiate the fees reimbursed for the rental of trucks.

- Vendor invoices were not always provided to substantiate the rental of trucks reported as used by the BBCDC in connection with the pickup and transport of items donated under the GOOD 360 Program. While vendor invoices were available for many of the trips, such invoices were not provided to substantiate reported trips for which the BBCDC was reimbursed \$3,382 from City CDBG funds.

A vendor invoice or other records was not provided to substantiate the \$150 cost of a reimbursed air conditioning repair.

- A vendor invoice or other adequate record was not provided to substantiate a reported air conditioning repair of \$150 which was reimbursed from City CDBG funds.

In addition to the above instances, we determined that adequate support (invoices, etc.) was also not initially available to substantiate many other BBCDC expenditures reimbursed by the City. However, for those other instances the BBCDC Executive Director, in response to our audit inquiries, was successful in locating or otherwise obtaining adequate support for the reported costs from the applicable vendors.

The City's Housing Division should have detected the absence of the receipts and invoices noted above and should not have provided reimbursements for those claims lacking appropriate receipts and invoices. **We recommend** the Department enhance its reviews of BBCDC reimbursement requests and, in the future, only reimburse those costs that are adequately documented and substantiated by the BBCDC. Furthermore, **we recommend** the Department consult with the City Attorney's Office to ascertain if the BBCDC should be

requested to return CDBG grant funds for those costs that cannot be substantiated by the BBCDC.

The Executive Director hired his daughter to help administer BBCDC activities funded by City CDBG grants, resulting in the appearance of a conflict of interests and a violation of contract provisions prohibiting nepotism.

Issue #9 –The Executive Director hired his relative (daughter) to help administer BBCDC activities funded by City CDBG funds, resulting in the appearance of a conflict of interests and a violation of contract provisions prohibiting nepotism. For the current and prior year contracts, the BBCDC has requested and received reimbursements to date for \$2,400 paid to the daughter of the Executive Director for services rendered to the BBCDC. Upon our audit request, the Executive Director provided the contract executed between the BBCDC and his daughter which provides for \$500 monthly payments in return for her assistance in implementing and administration of the contract with the City for the specified services; and, for additional payments at \$10 per hour for work in excess of 20 hours weekly. The contract specifies the contracted services to be performed by the Executive Director’s daughter include:

- Mopping and cleaning the BBCDC office headquarters and related facilities.
- Receiving and processing shipments of items donated under the GOOD 360 Program.
- Assisting the Executive Director in various activities.
- Helping with housing projects and their development.

While the contracted services may have been necessary and reasonable, the hiring of a close relative to perform those services results in an appearance of a conflict of interests, and is contrary to both the contractual provisions addressing conflicts of interests and the provisions prohibiting nepotism. **We recommend** the Department consult with the City Attorney’s Office on this matter. If deemed a contract violation, the City should no longer reimburse the BBCDC for the compensation paid to the Executive Director’s daughter.

Overall, the BBCDC has had limited success in achieving its contractual goals related to providing neighborhood revitalization services. The limited success is attributable, at least in part, to a lack of BBCDC financial resources.

Issue #10 – Overall, the BBCDC has had limited success in achieving its contractual goals related to providing neighborhood revitalization services to the low income community; the limited success is attributable, at least in part, to a lack of BBCDC financial resources to complete contractual requirements. As previously described in Tables 2 through 4, services to be funded by City CDBG funds and provided by the BBCDC included:

- Community/cultural events (e.g., concerts and educational workshops) for the benefit of the low-income community.
- Collection and distribution of various items and food for distribution to the low-income community through the (1) GOOD 360 Program and (2) Free Food Friday Program.
- Hosting summer camps for young girls living in the low-income community.
- Funding predevelopment costs for affordable housing units and developments, and repair and maintenance for related facilities (Ashmore Building).

Our review of BBCDC reports and records and discussions with the BBCDC Executive Director disclosed the BBCDC had limited success in providing those services. Specifically:

1. Community/cultural events: In regard to community/cultural events, for the period covered by the audit the only documented events sponsored by the BBCDC consisted of:

Documented community/cultural events included one community concert, one senior event, and two movie night events. The BBCDC Executive Director indicated that limited funding lessened the ability of the BBCDC to provide additional events.

- One community concert with free food held in the fall of 2015 and attended by 175 people, primarily Frenchtown residents. *(Direct costs identified as associated with the event totaled \$3,314.)*
- One “senior day” event held at BBCDC facilities in June 2015. *(Direct costs identified as associated with the event totaled \$175.)*

- Two “movie night” events held at BBCDC facilities in July and August 2015. *(Direct costs identified as associated with the event totaled \$2,060.)*

Other events may have been held (e.g., nutrition counseling); however, documentation substantiating these events was not provided. As indicated by the BBCDC Executive Director, limited funding lessened the ability of the BBCDC to provide additional events.

The Free Food Friday Program was terminated in April of FY 2015 because of a lack of participation and inconsistency in the quality of donated foods.

2. Collection and distribution of free food under the Free Food Friday Program: This program was operated for FY 2014 but was terminated in April of FY 2015. Based on FY 2015 records provided by the BBCDC, for the weeks the program was operated, an average of 32 households (or an average of 90 individuals) participated (received free food). The BBCDC director explained that the program was terminated because of a lack of participation and inconsistencies in the quality of the donated foods. The lack of participation was attributed to the large number of other agencies providing free food to low-income households. *(Direct costs identified as incurred for operation of this program totaled \$614.)*

The GOOD 360 Program has been the most successful of the programs operated by the BBCDC.

3. Collection and distribution of non-perishable items under the GOOD 360 Program: This has been the most successful program operated by the BBCDC for the period covered by this audit. For FY 2014, FY 2015, and through December of FY 2016, records show the BBCDC collected and distributed to participating pantries (or stored for future affordable housing units) non-perishable items valued at \$541,289. *(Direct costs identified as incurred for operation of this program totaled \$44,633.)*

One eight-week summer camp for young girls was held in the summer of 2014. BBCDC reports indicated that twelve girls participated in the camp.

4. Hosting summer camps for young girls (Queen Up Program): One eight-week summer camp was held in the summer of 2014. BBCDC reports indicated that twelve young girls participated in the camp. Although the applicable contract provided that another camp would be held in the summer of 2015, no such

camp was provided. In its performance reports submitted to the City Housing Division, the BBCDC indicated that instead of the summer camp, the BBCDC would sponsor a local Girl Scout troupe. However, the BBCDC indicated that sponsorship did not occur. (*Net direct costs identified as incurred for operation of the 2014 summer camp totaled \$150.*)

5. Predevelopment costs for planned affordable housing units and related revitalization efforts: The three applicable contracts provided for the payment of predevelopment costs for several planned affordable housing units to be developed and constructed through the BBCDC. Those planned units included:

- Casanas Village, a multiunit affordable housing development on the property originally acquired for the Frenchtown Village Marketplace project.
- One affordable housing unit to be sold or rented to an eligible low-income household.
- Two affordable housing units for eligible low-income veterans and their families.

Predevelopment activities were planned for the Casanas Village project and three other affordable housing projects.

It was determined that three affordable housing units would not be constructed because sufficient funds were not available. Prior to this determination, CDBG funds were expended on predevelopment costs.

These planned affordable housing units and projects were to be funded from other non-CDBG sources. However, the only project that may come to fruition is the Casanas Village development, which is addressed in more detail in previous sections of this report. The other planned affordable housing units were not constructed because anticipated funding was not received by the BBCDC. Specifically, the BBCDC was not awarded City grant funds through the federal HOME program to construct the planned units and did not have sufficient funds from other sources to construct the units.

Notwithstanding those circumstances, prior to determinations that applicable units would not be constructed, the BBCDC spent City CDBG grant funds for various predevelopment costs for those properties to include legal fees, workshops, market

studies, property maintenance, soil tests, utilities for the Casanas House, energy plan reviews, and topography maps. Additionally, City CDBG grant funds were used for repair and maintenance of the Ashmore Building, which is planned to complement the multiunit affordable housing development on the Casanas property. *(Direct costs identified as incurred for predevelopment for all three properties totaled \$11,611; with the majority spent on the Casanas Village property.)*

The costs incurred in connection with the three discontinued affordable housing unit construction projects likely will not result in a direct benefit to low-income families and area residents.

While benefits may eventually be realized from the goods and services provided for the Casanas Village property and the Ashmore Building, the costs incurred in connection with the other planned affordable housing units likely will not result in a direct benefit to low-income families and area residents.

As stated in the lead-in statement for this issue and the applicable issue descriptions, a significant reason for the limited successes of the BBCDC is the lack of resources. Our review of BBCDC financial records and reports show that the primary source of funds to operate as an organization has been the City's annual CDBG grants (\$60,000 in each FY's 2014, 2015, and 2016, and \$40,000 in FY 2013). Those City CDBG grant funds represented approximately 70% of all revenues over the BBCDC's last three complete years (calendar years 2013 through 2015). The remaining BBCDC revenues (approximately 30% of total revenues) consisted mostly of rental income from affordable housing units owned and operated by the BBCDC for eligible low-income households. That rental income was used to maintain those rental properties.

A significant reason for the limited successes of the BBCDC is the lack of resources.

Accordingly, the only substantial source of funding for the BBCDC to operate and pay its ongoing operational and support costs as an organization was the City's CDBG grants. That resulted in a significant portion of City CDBG grant funds being used for that purpose, instead of being used for the direct provision and delivery of program services. Our analysis showed the operational and support costs paid from City CDBG grant funds pertained to utilities, painting, plumbing, mowing, cleaning, other general

Costs identified as incurred for operations and support of the BBCDC totaled \$79,694, representing 56% of all CDBG grant funds expended by the BBCDC.

maintenance and repairs for the BBCDC facilities and property, internet service, accountant fees, insurance, security systems, office supplies, banking fees, state registration fees, post office box rental, computers, refrigerators, signs, locks and keys, and payment to contracted staff to assist the Executive Director in operating the BBCDC. The current Executive Director asserted he was not paid a salary for his services, and we confirmed CDBG funds were not used to pay a salary to the current Executive Director. *(Costs identified as incurred for operations and support of the BBCDC totaled \$79,694, representing 56% of all CDBG grant funds expended by the BBCDC.)*

If the BBCDC is determined not to be a financially viable entity capable of providing the needed services, City management should identify alternatives for providing the needed and desired services.

To summarize this issue, the BBCDC achieved meaningful success in its program to provide donated non-perishable items to pantries for distribution to low-income households (GOOD 360 Program). In addition, the BBCDC incurred predevelopment costs that may benefit Casanas Village, the planned multiunit affordable housing development. However, other program successes have been limited. Those limitations are attributable, in part, to a lack of sufficient funding that resulted in reliance on City CDBG grants to operate as an entity. As noted, 56% of CDBG funds were used to pay BBCDC operating costs, instead of being used to deliver program services. If the BBCDC is determined not to be a financially viable entity capable of providing the needed services, **we recommend** City management identify alternatives for providing the needed and desired services to low-income households.

Issue #11 – The Department needs to enhance its oversight and monitoring of recipients that receive City grants and contracts.

As the grantor of CDBG and other funds, the City Housing Division has responsibility to help ensure grant recipients adequately account for and use the awarded funds properly and in accordance with applicable grant and contractual provisions. For the CDBG grants addressed in this audit, City oversight procedures that should be performed included:

1. Reviewing BBCDC reimbursement requests to ensure:
 - Support is available and attached to substantiate the uses of the City grant funds (e.g., appropriately detailed vendor invoices).
 - The uses, on which the reimbursement requests are based, are reasonable and allowable.
 - Amounts are not requested for reimbursement more than once.
2. Requiring, obtaining, and reviewing periodic performance reports prepared by the BBCDC that are to report the services provided using the CDBG grant funds and the degree of success in achieving contractual goals.
3. Conducting periodic site visits to observe BBCDC operations, activities, and records as a means to determine and validate the appropriateness and effectiveness of the BBCDC's use of the grant funds.

City Housing Division monitoring procedures were not effectively applied.

During our audit, we found that the City Housing Division did apply and follow the described oversight procedures. Reimbursement requests were reviewed and approved by the designated contract manager(s), performance reports were obtained from the BBCDC, and one site visit was conducted by City Housing Division staff (i.e., a contract manager). Notwithstanding that those procedures were applied and followed, we determined those procedures were not effectively applied. Specifically:

Housing Division reviews of reimbursement requests were not sufficiently rigorous.

- The BBCDC reimbursement requests were not reviewed in a manner to detect the unallowable and inappropriate uses of CDBG moneys and the sometimes lack of adequate support (documentation) demonstrating the reported uses. The reimbursement requests were also not reviewed in a manner to detect and preclude duplicate payments for the same costs.

The Housing Division did not require the submission of complete performance reports.

The Housing Division's on-site monitoring efforts should have, but did not, detect the issues disclosed in this audit.

Significant enhancements should be made to the Department's monitoring and oversight processes.

- While periodic (e.g., quarterly) performance reports were prepared by the BBCDC and received and reviewed by City Housing Division staff, those reports were not reviewed in a manner that would have detected (1) the sometimes incomplete nature of the reports (e.g., report narratives were often incomplete) or that (2) specified contractual services were not being addressed and/or provided.
- The only site visit for the grants covered by this audit was conducted on March 2, 2015. It addressed only activities relating to the FY 2014 grant (i.e., a post grant site visit as the grant activity being reviewed ended in September 2014). The monitoring report prepared by the contract manager who performed the visit indicated particular attention was paid to compliance with eligibility requirements, financial management, overall contract performance, and eligible (allowable) costs. The contract manager also reported the BBCDC “appears to be exhibiting significant compliance with the regulations of the CDBG program”, and that “program performance appears to far exceed contract projections.” We agree the BBCDC realized some program successes during the contract year reviewed and that many grant uses were proper and appropriate. However, based on our findings, as disclosed in issues #7 through #10 identified above, we disagree with the overall conclusions reported by the contract manager.

We recommend that significant enhancements be made by the Department in regard to its monitoring and oversight process. Specifically: (1) reimbursement requests should be reviewed in a manner to ensure BBCDC costs, on which the requests are based, are allowable, reasonable, supported and substantiated; and to ensure that the same costs are not included on more than one reimbursement request; (2) required periodic performance reports should be reviewed for completeness and clarity, and to determine if they demonstrate the extent to which the contractual goals are being met; and (3) more frequent site-visits should be conducted to review and observe BBCDC records and activities for the purpose of

determining and verifying the BBCDC successes (or lack of successes) in achieving contractual goals.

OTHER MATTERS

In the City's annual budget, the planned expenditures for all of the Department's programs and activities are shown as appropriated from the City's General Fund. The related budget narrative does indicate that state and federal resources are expected to be available to assist in the funding of the Department. Although spending plans for federal and state resources are submitted annually to the City Commission for review and approval, the City's annual budget does not include as resources the estimated grant revenues expected from federal and state resources. Also, we noted that the budget does not address the planned uses, if any, of Housing Trust Fund resources. **We recommend** that future City budgets for the Department include as resources the grant revenues expected from federal and state resources. **We** also **recommend** that the budget for the Department address the planned uses, if any, of Housing Trust Fund resources.

Although spending plans for federal and state resources are submitted annually to the City Commission for review and approval, the City's annual budget does not include as resources the estimated grant revenues expected by the Department from federal and state resources. Also, the budget does not address the planned uses, if any, of Housing Trust Fund resources.

Conclusion

The purpose of this audit was to determine the extent to which the City had ensured, and could demonstrate of record, BBCDC compliance with City loan and grant contracts.

Loans had been properly authorized and loan contracts were consistent with the Commission's authorizations. However, issues were identified that led us to conclude that additional oversight is needed over loan contracts.

We noted some agenda item presentations in which facts relevant to Commission loan authorization or modification could have been more fully disclosed.

The purpose of this audit was to determine the extent to which the City had ensured, and could demonstrate of record, BBCDC compliance with the terms and conditions of City contracts. The audited contracts include those relating to outstanding special project loans owed to the City by the BBCDC, totaling approximately \$1,275,000, as of September 30, 2016, and those contracts relating to annual Community Development Block Grant (CDBG) awards to the BBCDC. For each of the three fiscal years included within the scope of this audit, the annual CDBG awards to the BBCDC totaled \$60,000.

Loan Contracts

We determined that the loans included within the scope of this audit had all been properly authorized by the City Commission and that, generally, the related loan contract terms and conditions were consistent with the Commission's authorizations. However, our audit did disclose several areas of concern that led us to conclude additional oversight over the status of the outstanding loans and the related projects is needed. The areas of concern are as follows:

- The agenda items relevant to the City Commission's consideration and authorization of the special project loans included within the scope of this audit were presented to the Commission at meetings occurring on various dates during the years 2004 through 2009. We found that these agenda item presentations were factual in most instances, but our audit did identify some agenda item presentations in which facts relevant to the loan authorization or modification (i.e., the status of other outstanding loans) could have been more fully disclosed. (*See Issue #1.*)
- For the \$750,000 Line of Credit Loan, it was not clear that the contract terms were fully consistent with the City Commission's authorization. (*See Issue #2.*)

Department records did not include documentation showing the actual BBCDC use of advanced line of credit loan proceeds.

Contract requirements relating to collateral and insurance were not always enforced.

Generally, the projects financed by the City loans have not been completed.

Timely actions were not taken when the City loans to the BBCDC became delinquent.

While in most cases, support was provided to substantiate the BBCDC's appropriate use of CDBG grant contract funds, there was some non-allowable, inappropriate, and undocumented use detected.

- The City records made available for our examination did not in several respects include documentation sufficient to allow a determination that the amounts advanced under line of credit contracts were used solely for the contractually authorized purposes. *(See Issue #3.)*
- The Department had not timely taken the steps necessary to ensure that contract requirements relating to collateral and insurance coverages had been enforced. *(See Issue #4.)*
- For the \$250,000 Line of Credit Loan, we were unable to determine the status of the City-financed project. Generally, the other projects financed by City loan contracts have, to date, not been completed. We noted that the status of these projects was infrequently reported to the Commission (primarily only when new loans or loan amendments were requested). *(See Issue #5.)*
- The Department did not take timely actions when the City loans to the BBCDC became delinquent. *(See Issue #6.)*

CDBG Contracts

While adequate support was provided to substantiate appropriate uses of many of the City CDBG grant funds, we determined there was some use of those funds for non-allowable or inappropriate purposes. We also found that adequate support was not always available to substantiate some uses of those funds. Furthermore, we found that the BBCDC was not successful in providing many of the services for which it had contracted to provide. Lastly, while there was some monitoring and oversight by the City's Housing Division of the contracts, those monitoring and oversight efforts need to be enhanced. The issues that resulted in this overall conclusion are summarized as follows:

- CDBG grant funds in the amount of \$7,659, representing over 5% of the grant funds paid to the BBCDC to date, were used to reimburse the BBCDC for non-allowable or inappropriate purposes. *(See Issue #7.)*

The BBCDC did not comply with the contract provisions and federal regulations, which define and prohibit conflicts of interests and nepotism.

The BBCDC was not successful in providing many of the services included in the CDBG contracts. The limited success is attributable, at least in part, to a lack of financial resources.

While there was some monitoring and oversight by the City's Housing Division, those monitoring and oversight efforts need to be enhanced.

- Adequate records were not provided to substantiate the goods and services received by the BBCDC for expenditures totaling \$19,851 (representing 14% of the grant funds paid to the BBCDC to date) which were reimbursed from City CDBG funds. *(See Issue #8.)*
- The BBCDC Executive Director hired his relative (daughter) to help administer BBCDC activities funded from City CDBG funds; resulting in the appearance of a conflict of interests and a violation of contract provisions prohibiting nepotism. *(See Issue #9.)*
- Overall, the BBCDC had limited success in achieving its contractual goals related to providing neighborhood revitalization services to the low income community. The limited success is attributable, at least in part, to a lack of BBCDC financial resources to complete contractual requirements. *(See Issue #10.)*
- The Department needs to enhance its oversight and monitoring of recipients that receive City grants and contracts. Specifically: (1) reimbursement requests should be reviewed in a manner to ensure BBCDC costs, on which the requests are based, are allowable, reasonable, supported and substantiated; and to ensure the same costs are not included on more than one reimbursement request; (2) required periodic performance reports should be reviewed for completeness and clarity, and to determine if they demonstrate the extent to which the contractual goals are being met; and (3) more frequent site-visits should be conducted to review and observe BBCDC records and activities for the purpose of determining and verifying the BBCDC successes (or lack of successes) in achieving contractual goals. *(See Issue #11.)*

Acknowledgments

This audit was included on the City Auditor’s annual audit plan and conducted in response to concerns expressed to the City’s Independent Ethics Officer by a citizen. Because of the expressed concerns, the Ethics Officer included the City Auditor in a subsequent meeting with a number of citizens. Based on that meeting, a determination was made by the City Auditor that the potential risks warranted an audit. We would like to acknowledge the City’s Independent Ethics Officer, whose role and efforts contributed to the decision to conduct this audit.

We would also like to thank the Executive Director of the BBCDC and staff in the Community Housing and Human Services Department, Accounting Services, and the Office of the City Attorney for their assistance during this audit.

Appointed Official’s Response

City Manager:

I appreciate the City Auditor’s review and recommendations regarding selected loan agreements and contracts between the City and the Big Bend Community Development Corporation (CDC). We will review the recommendations as presented and take action as deemed appropriate.

As noted in the audit the special project loan agreements which were reviewed were authorized between 2004 and 2009 and there have been recent actions to secure repayment of the outstanding loan balances. Specifically: (1) the outstanding \$682,237 line of credit loan has been repaid; (2) a payment of \$70,000 has been made on the outstanding \$250,000 line of credit loan, an amended loan agreement has been executed to secure the repayment of the outstanding \$180,000 loan balance by 2019, and a mortgage has been executed on the Tish Byrd Gardens House at 421 West Georgia Street to secure that outstanding loan balance; and (3) an amended agreement has been executed regarding the loan on the Ashmore property which requires that the loan balance and interest

be paid by November 2018. These actions have recovered 59% of outstanding loan balance owed to the City, have amended the existing loan agreements which have enhanced the City's position to receive the balance of the remaining payments, and provided additional collateral to secure the loans.

I would like to thank the City Attorney for his assistance in working with City staff and the CDC to amend the current loan agreements and secure the repayment of \$752,237. I also would again like to again thank the City Auditor and his staff for their assistance and recommendations.

Appendix A Management Action Plan

Action Steps		Responsible Employee	Target Date
A. Objective:	Ensure compliance with terms and conditions related to special project loan contracts between the City and Big Bend Community Development Corporation (BBCDC).		
	1) The Department will provide annually to the Commission a report on the status of outstanding special project loans, showing for each outstanding loan the debtor organization, the status of the related project, the loan amount authorized, the amount disbursed, the repayments received, the balance due, the due date, the sufficiency of collateral and insurance, a description of the actions taken to collect any past-due loans and the results, and any recommendations for Commission actions.	Michael Parker	June 30, 2017
	2) Department staff will be reminded that APP 201 requires that agenda item presentations include all relevant facts.	Michael Parker	December 31, 2016
	3) The Department will develop a definition of “special projects” and City Manager will select a special projects committee to review special project requests and the committee comments will be included in funding recommendations.	Michael Parker	March 31, 2017
	4) All Department sponsored special project loan contracts will be prepared in accordance with City Commission authorization, or if not clearly in accordance with that authorization, be submitted for Commission review and approval prior to execution.	Michael Parker	December 31, 2016
	5) Future loan contracts will include provisions requiring that the loan recipient provide proof that advanced (loaned) funds are used in accordance with contractual terms and conditions.	Michael Parker	December 31, 2016
	6) The Department will determine if the BBCDC is currently in possession of any unencumbered land or buildings. For any such property, the Department will consider requiring that the BBCDC deliver mortgages on that property sufficient to collateralize the \$250,000 Line of Credit Loan.	Michael Parker	Completed November 8, 2016
	7) The Department will ensure that timely provision of all collateral required to secure future special project loans.	Michael Parker	March 31, 2017

Action Steps	Responsible Employee	Target Date
8) The Department will on an annual basis physically inspect the Ashmore Property and determine whether it is being maintained in good condition, as required by contract.	Michael Parker	March 31, 2017
9) The Department will require from the BBCDC a detailed list of the Ashmore Property antiques, political paraphernalia, and collectibles and periodically determine the existence and condition of the listed items.	Michael Parker	April 28, 2017
10) The Department will on an annual basis obtain a certificate of insurance and determine that properties provided as collateral are appropriately insured.	Michael Parker	March 31, 2017
11) The Department will develop and execute monitoring plans for each of the special project loan contracts.	Michael Parker	March 31, 2017
B. Objective:	Ensure compliance with terms and conditions related to Community Development Block Grant (CDBG) contracts between the City and Big Bend Community Development Corporation.	
1) The Department will consult with the City Attorney’s Office to ascertain if the BBCDC should be requested to return CDBG grant funds used for non-allowable and/or inappropriate uses.	Michael Parker	February 28, 2017
2) The Department will enhance reviews of BBCDC reimbursement requests to ensure that only those costs that are adequately documented and substantiated by the BBCDC are reimbursed.	Michael Parker	December 31, 2016
3) The Department will consult with the City Attorney’s Office to ascertain if the BBCDC should return the CDBG grant funds for those costs that cannot be substantiated by the BBCDC.	Michael Parker	February 28, 2017
4) The Department will consult with the City Attorney’s Office regarding whether the Executive Director’s hiring of his daughter violates contract terms prohibiting conflicts of interest and nepotism. If deemed a contract violation, the Department will consult with the City Attorney’s Office concerning the corrective actions to be taken.	Michael Parker	February 28, 2017
5) If the BBCDC is determined not to be financially viable, the Department will identify alternatives for providing the needed and desired services to low-income households.	Michael Parker	April 28, 2017

Action Steps	Responsible Employee	Target Date
<p>6) Enhancements will be made in regard to the monitoring and oversight processes of the Housing Division. Specifically: (1) reimbursement requests will be reviewed in a manner to ensure BBCDC costs are allowable, reasonable, supported and substantiated; and not included on more than one reimbursement request; (2) required periodic performance reports will be reviewed for completeness and clarity, and to determine if they demonstrate the extent to which the contractual goals are being met; and (3) more frequent site visits will be conducted.</p>	<p>Michael Parker</p>	<p>March 31, 2017</p>
<p>Other Matters:</p>		
<p>1) The Department will review the process used to budget federal, state, and local resources to ensure that those resources and the related planned expenditures are included in the City’s annual budgets.</p>	<p>Robert Wigen</p>	<p>September 30, 2017</p>