MOTOR CITY MATCH &
MOTOR CITY RE-STORE PROGRAMS
OIG Case No. 2019-0018-INV
January 4, 2021

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INSPECTOR GENERAL

EXECUTIVE SUMMARY

On May 10, 2019, in accordance with the 2012 Charter of the City of Detroit (Charter), the Office of Inspector General (OIG) initiated an investigation in response to a complaint about program spending pertaining to the Motor City Match (MCM) and Motor City Re-Store (MCR) programs (programs). It is important to note that we are an independent agency that is charged with ensuring honesty and integrity in the City. Our jurisdiction is limited by the Charter to investigate matters concerning abuse, waste, fraud and corruption. We gather evidence during the course of our investigation and make factual findings based on the information available to our office during the course of the investigation.

As detailed later in the body of this report, the primary concern of the complainant was that approximately $250,000 per month was being spent by DEGC on the programs with minimal results. The goal of the OIG's investigation was to account for every dollar spent on the program during the time period of October 2014 through April 2018. It is not the goal of this investigation to interpret HUD regulations, or make a final determination of the eligibility of the expenses. However, based on our investigation, this report does identify certain matters that we believe warrant further review by HUD. As such, we are deferring those matters to HUD for the final determination.

Throughout 2019 the OIG reviewed thousands of pages of records received from DEGC outlining the payments made on behalf the programs. The OIG created a master spreadsheet by outlining the expenditures and classifying them into categories such as DEGC staff expenses, Program Delivery Costs and Technical Assistance Providers. In March 2020, HRD provided the OIG with their program summary spreadsheet and supporting documentation. The OIG then compared HRD's calculations to the OIG's master spreadsheet.

The comparison identified several discrepancies that were the subject of various communications and meetings between HRD and the OIG between April 2020 and July 2020. At the time, the questions raised were not answered to the OIG's satisfaction leading the OIG to issue its draft report in on September 22, 2020. Our investigation led to the numerous findings in our draft report including, but not limited to, the following:

- HRD included expenses paid after the HUD draw date of July 6, 2018 for reconciliation purposes, which at times included expenses through December 2018;
- HRD's summary submitted to HUD omitted over $1.2 million in vendor expenses, which the OIG initially concluded was intentional since the HRD summary total still reconciled to the HUD draw amount without the expenses included;
- HRD's recalculation of salary and fringe expenses to include expenses not previously submitted for reimbursement and a justification for program draws; and
- ODG ignored staff warnings that payment requests from DEGC did not meet HUD guidelines

Pursuant to Section 7.5-311 (1) of the Charter, the OIG issued HRD and ODG its draft report pertaining to this investigation. Also, pursuant to the Charter and the OIG's Administrative

Hearing Rules (the Rules), HRD and ODG opted to respond by providing the OIG with a joint written response. It is important to note that the affected parties are provided an opportunity to either respond in writing and/or hold an administrative hearing for the affected parties to present new evidence that would result in result in the OIG's decision to either reverse or correct its findings in the draft report.

In accordance with the Rules, on October 5, 2020, the City timely provided its joint response to the OIG's draft report. The following report highlights the effectiveness of the OIG's Administrative Hearing process. The OIG does not approach its investigations with a pre-determined outcome. Instead, we allow the evidence to lead us to a conclusion.

In this case, the City's response resulted in some substantive changes, which are reflected in our final report. The most notable change is the City provided the OIG with additional documentation that shows the vendor costs which were omitted from the HRD's summary of program expenses was not intentional. The City also provided the OIG with a revised summary that included the missing expenses. Furthermore, the City revised their reconciliation total to include all HUD draws as part of an audit of the entire program, instead of just the draws through the HUD report date, which led to the OIG to no longer consider this a finding.

For reason similar to the changes outlined above, you may see things mentioned in the City's response to our draft report, which is attached as an exhibit, that are no longer mentioned in this final report. You will also see that some of our original findings still stand, although the City may disagree with said findings, because there was not sufficient evidence to change the finding.

It is also important to note the OIG's role in these changes. It was the OIG that alerted HRD to numerous vendors missing from their summary, resulting in its revision. It was the OIG that raised to the question to HUD if it was proper for the City to include expenses after the HUD draw date in their reconciliation. This led HUD to inform the City that they would have to use the total draws through December 2018.

The OIG's review of the additional information received from the City created two additional findings. The City was using costs that were previously disallowed by HRD in their program summary. The OIG informed the City of the error and the expenses have been removed from their most recent summary.

In addition, the OIG discovered that a few of the draws from HUD for the programs, totaling approximately $250,000, did not have supporting documentation. On December 21, 2020, the City informed the OIG the draws were not for the MCM program but for another sub-recipient contract. Therefore, the OIG will conduct a separate investigation into this error to identify how this error occurred and how it has been corrected by the City.

The OIG is committed to providing factually accurate reports to the public. This is why we have a process that ensures that our draft findings are not absolute or final. Such measures allow for ongoing discussions, review of new evidence and additional investigation when necessary, before the report is final. We are pleased with how the process worked in this case, and encourage others to actively participate in the process for the best outcome.

I. Overview of the Programs

A. Motor City Match Program

The Motor City Match (MCM) program provides technical assistance to City of Detroit (City) business owners based on the following "tracks":[1]

- Business Plan (Get Ready)-Business planning class for business owners with a great idea;
- Space (Make a Match)-Match making with top real estate; financial planning assistance;
- Design (Make a Plan)-Design & Build Assistance, Priority Permitting, Financial Assistance;
- Cash[2] (Match Your Cash)-Grants to fill in the financial gaps on the project up to $100,000; opportunities to apply for additional financing from lending partners.

Each "track" depends on where the business owner is in the process of opening their business. For example, an owner with an idea for a business who has not yet formed a business plan would enter the MCM program at the Business Plan track. Alternatively, an owner who has a business plan and space for their business can apply for the design track or cash track, depending on the type of assistance needed.

The MCM program is administered through the Detroit Economic Growth Corporation (DEGC) on behalf of the City. According to the MCM website, to be eligible for MCM funding, applicants must meet the following criteria:[3]

- Business must be located in the City for at least two years and demonstrate a benefit to the community, as outlined in the program guidelines;
- Business owners can only apply for one track per quarter;
- Business owners who own multiple companies may apply to the program for one business only; and
- Franchise businesses and non-profit businesses are not eligible to apply for the program.

The MCM program guidelines also state the following business owners are not eligible for the program:

1) Employees, elected officials or appointed officials or officers of the City government;
2) Employees or board members of the DEGC;
3) Employees or board members of the Economic Development Corporation of the City of Detroit (EDC);
4) Contractors affiliated with the MCM program;
5) MCM jurors; and
6) Spouses and dependents of (a) employees and board members of the City, DEGC, and EDC; (b) contractors affiliated with the MCM program; and (c) MCM jurors.

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[1] Tracks, or award levels, as outlined in the MCM program guidelines, Pg. 4g.
[2] The cash grants were not funded by CDBG funds, however, the staff and consultant salaries to assist the business owners with financial assistance was paid through CDBG funds.
[3] http://www.motorcitymatch.com/business-owner/ Eligibility Section.

B. Motor City Re-store Program

DEGC also administers the Motor City Re-store (MCR) program, which assists existing Detroit-based business owners to improve their storefronts. The MCR program provides assistance with the following tracks:[4]

- Architecture and Design-Conceptual design and scoping services, paid with CDBG funds; and
- Construction-Reimbursement grant for 50% of the construction costs; paid with philanthropic or municipal funds.

According to the MCR website, the MCR program is open to:

- Businesses that are open and operating within the City of Detroit;
- [Businesses] must be open at least one year before applying; and
- Business owners and their landlords apply together in one application.

Eligible project activities for MCR include the following:

- Façade improvements;
- Visible security and safety measures;
- Signage and exterior lighting;
- Parking lots repairs; and
- Landscaping, storm water drainage, and other green improvements.

Similar to the MCM program, the MCR program guidelines also state: "no employee, agent, consultant, officer, or elected official or appointed official of the EDC, the DEGC, or the City of Detroit, or of a Motor City Re-Store applicant who [is] in a position to participate in a decision-making process or gain inside information with regard to the Motor City Re-store program, or have a financial interest in any contract, subcontract, or agreement with respect to the Motor City Re-Store program, either for themselves or those whom they have business or immediate family ties."

C. CDBG Funding Guidelines

The MCM and MCR programs are supported by Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds. According to HUD, "the authorizing statute of the CDBG program requires that each activity funded, except for program administration and planning activities, must meet one of three national objectives. The three national objectives are:

– Benefit to low- and moderate- income (LMI) persons;

– Aid in the prevention or elimination of slums or blight; and

– Meet a need having a particular urgency (referred to as urgent need)."[5]

[4] http://www.motorcityre-store.com/wp-content/uploads/2017/11/Motor-City-Re-Store-Program-Guidelines-Nov-2017-version.pdf
[5] https://files.hudexchange.info/resources/documents/Basically-CDBG-Chapter-3-Nat-Obj.pdf

While meeting the national objectives was a primary concern of the 2018 HUD Monitoring Report, for purposes of this investigation, it is important to note the OIG did not review the MCM/MCR programs to determine whether the City of Detroit Housing and Revitalization Department (HRD) was complying with HUD's objectives. The OIG is deferring such matters to HUD for its independent determination.

City of Detroit's Funding Process for MCM/MCR:

DEGC administers the MCM/MCR programs and pays for the expenses from its own funds. DEGC then submits a payment request for reimbursement to HRD. HRD reviews and approves the request, less any costs HRD determines are not allowed by the grant guidelines, and forwards the request to the Office of Development and Grants (ODG). ODG also reviews the payment requests for compliance and reasonableness, and identifies any costs that are not allowed. When either HRD or ODG determines there are disallowed costs, they send DEGC a deficiency letter for the disallowed amount, while the costs deemed allowed are sent to Grants Accounting for payment to DEGC. The City then requests reimbursement from HUD (HUD Draws) for the payments to DEGC.

II. Complaint

On May 10, 2019, the Office of Inspector General (OIG) received a complaint from a former City of Detroit employee who alleged the following:

- Supervisors in the ODG ignored concerns raised by the now former employee that payment reimbursement requests submitted from DEGC for the MCM and MCR programs did not meet HUD standards. The employee warned supervisors DEGC's payments were unreasonable, and possibly ineligible, and would not be reimbursed by HUD;[6]
- Supervisors in the ODG abused their authority by pressuring the staff to sign off on reimbursement packages from DEGC, which would not be reimbursable by HUD; and
- DEGC wasted CDBG resources and could not adequately account for their monthly spending on the programs.
- City employees did not scrutinize payment requests from DEGC as they did not treat quasi-city government agencies as a separate entity from the City. As such, the payment requests from DEGC received less monitoring than payment requests from a third-party with no direct ties to City.

Additional Concerns from the HUD Monitoring Report and Responses

In May 2018, HUD conducted an on-site monitoring of the CDBG program. A report was issued on September 24, 2018 with 9 findings for the City of Detroit Housing and Revitalization Department (HRD) to address. HUD also addressed HRD's responses to the findings with subsequent monitoring responses from HUD to HRD dated May 1, 2019 and November 5, 2019.

[6] Staff Email to Katerli Bounds and Ryan Friedrichs dated March 12, 2019 regarding concerns with the MCM payment requests.

The OIG identified the following additional concerns from the HUD report[7] and HUD monitoring responses:

- An 18% "overhead" rate which might insinuate a negotiated indirect cost rate, which is permitted, or a fee, which is not permitted, or a *de minimis* indirect cost rate, which the regulations state can only be 10% of modified total direct costs (MTDC);[8]
- There was insufficient documentation to show that all employees funded by CDBG have the exact same fringe benefits to support an across the board Fringe Rate of 28%;[9]
- DEGC staff expenses did not properly document the expenses as direct assistance to a specific business;[10]
- Sub-recipient[11] agreement does not ensure that costs covered by CDBG comply with federal regulations;[12]
- Expenses were improperly classified as direct Activity Delivery Costs[13] (ADCs), when the expenses should have be classified as indirect ADCs or Planning and Administration Costs (PACs);[14] and
- Documentation for MCM did not differentiate staff, consultant and legal costs broken out by eligible activity, as required by HUD.[15]

III. Findings

Based on our review of the records obtained from HRD, DEGC, HUD, and interviews of the individuals identified in this report, we find:

1. The OIG *substantiated* the complainant's allegation that her concerns about the programs were ignored by ODG management. It is the City's position that prior to the HUD Monitoring Report, "there were no reason to believe that the structure of the invoicing to HUD was incorrect"[16] and dismissed the allegation of the former employee. However, it was the complainant who escalated her concerns to HUD directly[17], resulting in HUD conducting a review of the program. It is the complainant's position that she only went to HUD after her concerns were dismissed without action by ODG management. Given

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[7]HUD Monitoring Report dated September 24, 2018.
[8] HUD Monitoring Response dated May 1, 2019 Finding #5, Corrective Action #2.
[9] HUD Monitoring Response dated May 1, 2019 Finding #5, Corrective Action #3.
[10] HUD Monitoring Response dated November 5, 2019, Finding #2, Corrective Action #1
[11] Sub-recipient means a non-federal entity (DEGC) that receives a sub-award from a pass-through entity (the City) to carry out part of a federal program (MCM/MCR), https://www.hud.gov/sites/documents/CFR200.PDF
[12] HUD Monitoring Response dated May 1, 2019, Finding #5, Corrective Action #2.
[13] HUD defines ADCs as "those allowable costs incurred for implementing and carrying out eligible CDBG activities." https://www.hud.gov/sites/documents/13-07CPDN.PDF
[14] HUD defines PAC's as "reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part with CDBG funds." https://www.hud.gov/sites/documents/13-07CPDN.PDF
[15]HUD Monitoring Response dated November 5, 2019, Finding #2, Corrective Action #1.
[16] City of Detroit Response to the OIG Draft Report, Appendix A, Pg. 5.
[17] Email from K. Shannon to HUD dated February 28, 2018.

this information, it is more likely than not that concerns about the programs were expressed before the HUD review[18].

2. The OIG *did not substantiate* the complainant's allegation regarding being pressured to sign off on payments for the programs. As evident in the email dated March 11, 2019, the complainant stated the costs were not reasonable, and did not feel comfortable approving the payment request. The response from her supervisor Katerli Bounds was that it was her job to oversee the payments and find "viable courses of action" such as requesting additional documentation or deficiency letters. Stating it was her job could be viewed as pressure, but the request itself, which was simply to exhaust all possible avenues before refusing the payment, was not unreasonable nor did it imply intent to rush payments without sufficient review.
3. The OIG *partially substantiated* the complainant's allegation of wasted resources and inadequate accounting records for the program. While waste is open to interpretation, it is clear that more money was spent on advertising, implementing and administering the programs than on direct assistance to the businesses. Furthermore, a 2 year audit of the programs that required the payments to be recalculated and remastered[19] for reporting purposes, and remains ongoing at the time of this report, supports the allegation the records did not adequately reflect how money was being spent on the programs.
4. The OIG *did not substantiate* the complainant's allegation that the payment requests from DEGC received less scrutiny than other sub-recipients. This is partially substantiated by the previous finding regarding inadequate accounting records. In addition, the ongoing audit revealed several expenditures that HRD has identified as ineligible, an issue that could have been identified prior to the HUD review. However, contrary to the complainant's allegation, the OIG has no evidence this occurred because of DEGC's ties to the City.
5. The OIG *substantiated* that the reimbursement requests presented to HUD included an improper 18% overhead expense. The City acknowledged this error and corrected the error by removing the expenses in their recalculation of staff costs submitted in response to the HUD audit.
6. The OIG *did not substantiate* that there was insufficient documentation to support a 28% fringe rate. The DEGC records the same level of fringe benefits were available to all employees and the 28% rate was reasonable.
7. The OIG *substantiated* the DEGC staff expenses did not properly document direct assistance to specific participating businesses. The staff expenses were spread out over all of the businesses assisted, instead of allocating the expenses to a specific business. However, based on a more current review of the records, it does appear that current invoices from DEGC reflect that this issue has been corrected.
8. The OIG *did not make a determination* regarding if the MCM and MCR programs were in compliance with federal regulations, as such determination can only be made by HUD. However, the OIG did find areas of concern for further review as part of HUD's ongoing audit of the programs.

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[18] The HUD monitoring visit occurred May 7, 2018-May 14, 2018, with a report released in September 2018.

[19] Remastered was a term used by HRD to describe their process of reporting the program costs to HUD in response to the audit.

Additional Findings:

1. There are 3 draws for reimbursement from HUD for the programs totaling $248,614.50 that do not have corresponding payment requests or supporting documentation from DEGC[20];
2. Costs that were included in the DEGC payment requests have been omitted from the City's resubmitted calculations to HUD[21];
3. Costs that were previously disallowed by HRD (denied reimbursement by HRD and not included in HUD draws) are included in resubmitted calculations to HUD to justify the program costs.[22]
4. The City recalculated the salaries and fringe benefit rates for DEGC staff in their resubmission to HUD, thereby including expenses that were not included in the original HUD draw requests to justify said requests.
5. HRD's recalculation of the fringe rate varied by employee and was not in line with the flat rate as agreed upon in the contract[23] between EDC and the DEGC for MCM;
6. The programs provided assistance to business owners outside of the City, creating a disallowed expense when the businesses failed to open.

IV. Documents Reviewed by the OIG

- DEGC payment reimbursement requests[24] to HRD from October 2014 through April 2018[25]
- MCM and MCR Program Guidelines
- MCM/MCR applications submitted to DEGC between October 2014 and April 2018[26]
- Requests for Proposals and Request for Qualifications for Program Delivery Contractors
- DEGC's summary of businesses assisted by track
- Electronic Code of Federal Regulations-Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards
- Electronic Code of Federal Regulations-Part 570 CDBG
- HUD Notice CPD-13-07: Allocating Staff Costs Between Program Administration Costs vs. Activity Delivery Costs in CDBG
- HUD CDBG Webinar[27]
- Housing and Revitalization Department (HRD)'s MCM/MCR Program Summary received March 24, 2020
- HRD's Revised Program Summary dated December 18,2020

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[20] City Response #3, explaining the draws were made in error and not for the programs.
[21] See Table 3 of this report for more detail of the omitted expenses.
[22] This finding has been corrected by the City after the OIG informed ODG of the error in December 2020.
[23] Formal Agreement for Billing Rates Motor City Match dated October 1, 2014, Pgs. 2-5.
[24]DEGC Invoices-Payment requests included DEGC staff costs, vendor invoices, and check copies per month, usually between 100-150 pages per month.
[25] DEGC began requesting reimbursements for expenses in October 2014. Payment requests after April 2018 should not have been included in the July 6, 2018 draw total, therefore, the OIG did not review payments after April 2018.
[26] MCM Awardee Applications, Business, Space, Design & Cash Tracks Rounds 1-12.
[27] https://www.hudexchange.info/trainings/courses/allocating-staff-costs-between-administrative--activity-delivery-costs-for-cdbg-grantees-webinar/

- HRD's File For Each Business[28]
- 2018 HUD Monitoring Report dated September 24, 2018 (2018 Monitoring Report)
- HUD Monitoring Response to HRD dated May 1, 2019
- HUD Monitoring Response to HRD dated November 5,2019
- DEGC's contract with EDC for the programs and staff expenses
- IDIS Reported Draws from HUD for the programs

V. Interviews Conducted

- Cynthia Cooper Vails, Senior Financial Analyst-HUD
- Kathy Bagley, CPD Representative-HUD
- Keith Hernandez, Program Director-HUD
- Bryan Proven, Special Agent, HUD OIG
- Lindsey Wallace, Director of Economic Development, HRD
- Donald Rencher, Director, HRD
- Nicole Wyse, Associate Director, Community Development, HRD
- Kennedy Shannon, Former Employee of ODG
- Christopher Jones, Assistant Director of Grants, ODG

VI. Review of MCM/MCR Programs

The OIG's review focused on how each dollar was spent on the programs, based on the initial payment requests from DEGC to HRD. The payment requests identified all of the expenses DEGC documented were spent on the MCM/MCR programs, including DEGC staff costs, program delivery contractor costs, technical assistance vendor costs and indirect vendor costs.

The OIG used the payment requests to create a master spreadsheet that identified all DEGC's expenditures for the programs from October 2014 through April 2018. October 2014 was the first month DEGC began requesting reimbursement from HRD for payments made on behalf of the MCM/MCR programs. Although the draw date on the 2018 Monitoring Report was July 6, 2018, the OIG used April 2018 as the end date for the review. The OIG settled on this date after reconciling the payment requests from DEGC to the HUD records showing draws (reimbursement) requested for the programs.

The OIG's spreadsheets grouped the expenditures by categories including DEGC staff member or vendor costs and then separated the expenditures by the type of costs, such as: staff costs, technical assistance costs, program delivery contractors and indirect vendor costs. After creating the master spreadsheet with all of the expenses as initially reported to HRD, the OIG also made adjustments for ineligible expenses, such as staff overhead rates charged by DEGC and expenses incurred for ineligible businesses.[29]

As part of the reconciliation, the OIG discovered there were three draw requests submitted to HUD for the programs that do not have corresponding payments requests from

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[28] The business file included all costs directly related to the businesses assisted, including staff and technical assistance

[29] The OIG based its calculations of ineligible businesses on HRD's determination.

DEGC. The amounts are $116,791.45 from August 13, 2015; $54,541.73 also from August 13, 2015 and $77,281.32 from December 8, 2015, totaling $248,614.50. Copies of the invoices were requested from DEGC, however, they were not able to locate any payment requests matching the draw amounts. The OIG also reviewed the records provided by the City, and found no explanation for additional expenses. The following table is a summary of the OIG's reconciliation of the HUD draw amounts and the DEGC payment requests:

Table 1: OIG's Summary of MCM/MCR Expenses

Program Delivery Contractors	$4,017,477.18
Technical Assistance Providers[30]	$1,463,380.59
DEGC Staff Costs[31]	$2,557,417.53
Corrections/Adjustments	(175.98)
OIG's Calculated Program Total[32]	**$8,038,099.32**
2018 HUD Monitoring Report Draw Amount	**$8,286,714.53**
Draws Made in Error	($248,614.50)
Revised HUD Draws	**$8,038,100.03**
Difference From OIG's Total	**$0.71**

The total of DEGC's expenditures per its invoices, less expenditures disallowed by HRD, totaled $8,038,099.32 through April 2018, approximately $248,615.21 ($8,286,714.53 - $8,038,099.32) lower than the amount specified in the 2018 monitoring report. Based on the draws from HUD, the OIG identified $248,614.50 drawn without corresponding invoices from DEGC. The City has stated the expenses were charged to the MCM program in error, and has been revised as part of their ongoing audit with HUD. As a result, the OIG is using the revised the HUD draw amount for reconciliation purposes. The OIG was not able to identify the reason for the remaining difference of $0.71, which the OIG concluded was immaterial.

A. Program Delivery Contractors

The Program Delivery Contractors provided services to the MCM/MCR programs, such as neighborhood market studies, program design, building assessments, marketing and CDBG consulting/compliance for the programs. Unlike the technical assistance[33] vendors for the programs, who provided services directly to the businesses, the Program Delivery Contractors provided services to benefit the program as a whole instead of the individual businesses. Based on a review of the DEGC invoices, using HRD determination of what businesses qualified as Program Delivery Contractors, the OIG found the following:

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[30] Includes technical assistance for both MCM and MCR.

[31] The DEGC Staff total includes both direct and indirect staff costs, as well as the 18% overhead fee that was initially included on the invoices.

[32] OIG's Master Spreadsheet

[33] Technical assistance refers to the services provided to the business owners, such as business plans, bookkeeping, architectural design and construction.

Table 2: OIG'S Program Delivery Contractor Summary Based on the DEGC Invoices

Name	Service(s) Provided	Total
2051 Rosa Parks, LLC	Rental Space	**$4,500.00**
Acuity Scheduling	Appointment Scheduling Services	**$1,210.00**
Allegra Print & Imaging of Detroit	Advertising-Tote Bags	**$1,689.14**
ARC	Advertising	**$11,373.14**
Central Detroit Development Corporation	Room Rental	**$150.00**
Clark Hill	Legal Services	**$160,144.00**
Creative Differences Marketing	Advertising/Marketing (Interviews with past winners)	**$65,625.00**
Detroit Luxury Transportation	Charter Coach Rental	**$334.60**
Don Bosco Hall	Room Rental	**$225.00**
Eastern Market Corp.	Facility Rental	**$2,100.00**
EDC Charter County of Wayne	Event Space Rental	**$1,270.00**
Fleishman Hillard	Marketing & Communications Plan Implementation	**$16,858.75**
Focus Hope	Conference Room Rental	**$720.00**
Fox Creek Partners	Space Rental	**$2,500.00**
Friends of the Alger Theater	Space Rental	**$608.00**
Grasshopper	Phone Services	**$714.91**
Hennessey Engineers	CDBG Consulting on Program Design & Compliance	**$143,250.25**
Hi Def Graphics & Media	Advertising-Brochures, T-Shirts, Posters	**$2,476.25**
Infogroup	US Business Research License	**$3,676.00**
Inland Press	Advertising	**$25,541.77**

Name	Service(s) Provided	Total
James Feagin	Partner Engagement/Outreach	**$255,893.75**
Malko Media	MCM Media Campaign	**$1,378.75**
Matrix Human Services	Room Rental	**$400.00**
Media Genesis	Marketing & Communications Plan Implementation	**$240,302.00**
Michigan Chronicle	Classified Ad for RFP, Event Sponsorship	**$5,519.48**
Michigan Economic Developers Association	Training	**$5,000.00**
Mort Crim Communications	Marketing & Communications Plan Implementation	**$272,053.17**
Nielsen Consumer Activation	Quick Market Insights Package	**$5,885.00**
Northeast Guidance Center	Room Rental	**$775.00**
Northwest Community Programs, Inc.	Space Rental	**$160.00**
Old Redford Community Development, LLC	Hall Rental	**$8,500.00**
Osborn Neighborhood Alliance	Space Rental	**$250.00**
Pegasus Entertainment	Equipment Rental	**$21,780.84**
Personnel Unlimited Squared	Support Staff	**$27,810.00**
Plaza Del Norte	Space Rental	**$200.00**
PSI, Inc.	Assessment of Building Conditions	**$1,820,900.00**
Quality Pheasant, LLC	Event Space Rental	**$600.00**
Royal Transportation	Motorcoach Rental	**$1,197.00**
Royalty Dance Studio	Room Rental	**$1,025.00**
ShaDarian Corona-Green	MCM Magazine	**$200.00**
Smartsheet	Cloud integration system license	**$3,938.30**
Snelling Staffing Services	Support Staff	**$28,503.18**
Street Sense Consulting	Retail Market Study	**$387,636.25**
Tech One Holding	Garage Parking	**$12,450.00**
TechTown	Small Business & Commercial Corridor Program	**$10,000.00**
The Detroit Bus Company	Bus Services	**$1,310.40**

Name	Service(s) Provided	Total
Thinkers Coworking Spaces & Loft	Space Rental	**$150.00**
Truimph Charter	Motorcoach Rental	**$1,600.00**
Truscott Rossman Group	Marketing & Communications Plan Implementation	**$445,964.00**
Vision Direct Imaging Media Group	Photographs of Businesses & Neighborhoods	**$9,700.00**
Wayne State Housing, Residential Life & Student Center	Hall Rental	**$771.75**
Wayne State University	Event Parking	**$106.50**
WP Engine	Digital Experience Platform/Site Services	**$550.00**
	Total Program Delivery Costs:	**$4,017,477.18**

In the HRD Program Summary provided to the OIG, which was used by the OIG to issue its draft report to the City, only 10 of the 53 vendors listed above were included under Program Delivery. This led the OIG to question HRD as to why so many vendors were missing from the summary, including specific vendors like PSI.[34] The response from the City was that the information was not provided to HRD from DEGC, and that HRD would look into the matter and respond. A response was not provided to the OIG, raising concerns that the omission could be intentional, as it would be impossible to accurately reconcile the HUD draws without including the costs from the DEGC payment requests. Since the costs were omitted, they were not classified by HRD at the time of the draft report, which led to the OIG classifying the missing expenses as indirect costs.

The OIG has since learned that HRD did immediately request a response[35] from DEGC regarding the missing expenses, and revised their program summary to include the additional expenses. The revised program summary classified the costs as program delivery costs; the OIG followed suit for purposes of this report.

It is the City's position that "all costs associated with Motor City Match are considered Activity Delivery costs."[36] Based on the OIG's review of the contracts provided, a number of the contracts identified as Program (Activity) Delivery costs could meet HUD's definition of Planning & Administrative costs (PAC) or Activity Delivery Costs (ADC). CDBG guidance describes PACs as "costs for staff-time and overhead costs for planning and general

[34] Email Communication between Lindsay Wallace (HRD) and Beverly Murray (OIG) between April 23, 2020 and May 20, 2020.
[35] City of Detroit Response, Appendix E
[36] City of Detroit Response, Appendix A, Pg. 5

administration of the CDBG program."[37] CDBG guidance also stated PACs cover the cost of "planning, general management, oversight, coordination, and implementation"[38] of the CDBG program as a whole. PACs are limited to 20% of the annual CDBG grant. CDBG guidance describes ADCs as "allowable costs incurred for implementing and carrying out eligible CDBG activities."[39]

We note that it is not the OIG's role to make the final determination on this matter, as the decision of proper cost classification rests with HUD. Therefore, the OIG is requesting that HUD further review the Program Delivery costs outlined in Table 2 for eligibility for reimbursement and whether the City made proper classification of expenses in accordance with HUD guidelines.

Differences in Reported Costs

The OIG's calculations differed from the totals provided by HRD. Upon further review, the OIG found the following reasons for the differences:

Table 3: OIG's Comparison of Program Delivery Contractor Totals to HRD's Totals

Contractor	DEGC Invoice Amount	HRD Program Summary Amount (Through April 2018)	Difference	Reason for Difference
ARC	$11,373.14	$11,158.91	($214.23)	Missing Payments from June 2017 totaling $64.99 and November 2017 totaling $149.24.
Inland Press	$25,541.77	$22,481.21	($3,060.56)	Missing Payment from June 2015 totaling $3,060.56
Northwest Community Programs	$160.00	$0	($160.00)	Not Included on Program Summary
Osborn Neighborhood Alliance	$250.00	$0	($250.00)	Not Included on Program Summary
PSI, Inc.	$1,820,900.00	$1,633,680	($187,220.00)	Unknown-HRD did not provide payment detail for this vendor
Wayne State Housing & Residential Life	$771.75	$0	($771.75)	Not Included on Program Summary
			($191,676.54)	

37 https://files.hudexchange.info/resources/documents/Notice-CPD-13-07-Allocating-Staff-Costs-Program-Administration-Delivery-Costs-CDBG.pdf
38 https://files.hudexchange.info/resources/documents/Basically-CDBG-Chapter-11-Financial-Management.pdf
39 https://files.hudexchange.info/resources/documents/Notice-CPD-13-07-Allocating-Staff-Costs-Program-Administration-Delivery-Costs-CDBG.pdf -

According to the OIG's calculations, Program Delivery Costs were underreported by $191,676.54. The OIG was unable to further investigate the difference in the totals for PSI, Inc. since the program summary did not include detailed payment for PSI, only the total.

Of the 53 vendors listed in Table 2, HRD only provided the OIG with procurement records, such as bid advertisements, tabulation and copies of the executed contract for the providers listed above except for the following 7 vendors:

- Clark Hill
- Fleishman Hillard
- Hennessey Engineers
- Media Genesis
- Mort Crim Communications
- Truscott Rossman Group, LLC
- Streetsense Consulting

The OIG is requesting that HUD further review these contracts to ensure compliance with the procurement process required for the grant.

B. Technical Assistance Providers

The businesses in the programs received technical assistance from vendors, such as tax preparation, trademark assistance and architectural/design services. With the exception of the vendors that provided the business plan classes, the Technical Assistance Providers were not listed by name; only the final amount appears in the summary provided by HRD. The final totals also included payments after OIG's review date of April 30, 2018. Therefore, the OIG was not able to reconcile the Technical Assistance Providers to HRD's Program Summary.

Based on the DECG Invoices, the OIG identified the following Technical Assistance Vendors:

Table 4: Technical Assistance Providers

Vendor Name	Amount
A Squared Legal	$5,408.00
Accutrak Consulting & Accounting	$8,247.00
Allied Building Service Co. of Detroit	$1,500.00
Arconcepts	$12,850.00

Vendor Name	Amount
Ashton Business Consulting	$3,845.00
August Mack Environmental	$12,200.00
Berardi & Partners	$9,480.00
Best Practices Consulting, LLC	$59,750.00
Business Design Company, LLC	$2,500.00
Canvas Legal	$14,722.00
Cecil Consulting & Training, LLC	$2,550.00
Centric Design Studio	$20,280.00
Chase Great Enterprises	$4,900.00
Christa Chambers-Price	$3,000.00
Christian Hurttienne Architects, LLC	$4,000.00
City of Detroit-BSEED	$1,750.00
Coates Communications	$8,350.00
Dalton & Tomich, PLC	$8,589.50
Detroit Expediting & Development Group	$3,500.00
Dianne Walker LLC	$1,750.00
DMET	$15,000.00
Downtown Detroit Partnership/Build Institute	$195,000.00
Edwards Group International	$4,000.00
Eiram Creative	$700.00
Ellel & Co. LLC	$3,500.00
Eric Williams	$3,925.00

Vendor Name	Amount
Et al Collaborative of Detroit	$2,750.00
Ford Tax & Accounting	$250.00
Guardian Home Inspection	$795.00
Hamilton Anderson	$107,087.81
Harvard Construction & Engineering	$2,350.00
J& F Advisors	$3,480.00
Jessica Janda	$18,067.65
JW Design	$12,340.00
Koded Icons, LLC	$7,000.00
Lifeline Business Consulting	$133,950.00
M1/DTW, LLC	$58,316.75
M3D Experiences	$66,250.00
MCS Multimedia	$9,282.95
Momentum Bookkeeping	$1,160.00
Mortada & Deines Design	$8,250.00
MYISHA Tax Consultant	$5,950.00
North Coast Strategies	$4,000.00
Partner Engineering & Science	$14,550.00
Partners in Architechture	$12,050.60
Patrice Cokley	$3,500.00
PEA	$2,450.00
Plunkett & Cooney	$13,381.43
QT Business Solutions	$5,590.00

Vendor Name	Amount
Ravenwood Craftworks, LLC	$2,100.00
Rebuild Group	$5,132.50
Roger Anderson Consulting	$5,000.00
Saga Marketing	$5,000.00
Shindel, Rock & Associates	$3,016.00
Southwest Economic Solutions	$9,500.00
Strategic Financial Partners of Ann Arbor	$32,200.00
Tasteful Business Solutions	$1,975.00
Terzo & Bologna	$6,500.00
The Drobrusin Law Firm	$1,000.00
The Liberati Group	$5,340.00
The Pllus Group	$1,500.00
Trent Creative	$24,600.00
Urban Alterscape	$8,925.00
Virtuoso Enterprises, LLC	$392,738.50
Visual Asset Productions	$17,400.00
Ward & Fifth Consulting	$17,300.00
Wayne Alumni Law Group	$797.40

Vendor Name	Amount
Who's That	$11,137.50
Yaffe & Company	$8,120.00
Total:	**$1,463,380.59**

C. DEGC Staff Costs

The DEGC staff provided assistance to the MCM/MCR programs by providing services such as reviewing, processing and evaluating applications, processing checks to pay invoices, program development and guidelines, bid processing, social media campaigns, client relations, CDBG compliance, and contract administration. As such, these costs were classified as direct staff costs for the MCM or MCR programs, or indirect staff costs. Similar to Program Delivery Contractors, the staff time reported by DEGC was not directly allocated to a specific business. Neither the invoices, nor the additional documentation provided by HRD, show which businesses were directly assisted by DEGC staff for the time period of the OIG review.

D'EGC's invoices provided a breakdown of salary information for each employee:

- The initial base salary based on the hours worked on the program;
- Base salary plus the fringe rate to calculate the fringe adjusted salary; and
- The fringe adjusted salary plus the 18% overhead rate.

Based on the DEGC invoices to HRD, the total requested for reimbursement of DEGC staff expenses totaled $2,557,417.53. HUD determined the overhead rate was not an eligible expense. The DEGC invoice total, after removing the contractor portion and legal portion that did not include the 18% overhead rate, was $1,994,593.75. The OIG used the fringe adjusted salary to remove the overhead calculations, resulting in the difference of $359,027.50 as seen in Table 5 below. An 18% increase is $359,026.88 (1,994,593.75 x 18%), a difference of $0.63 from the OIG's calculations in the table below.

Based on the OIG's review and analysis of the invoices DEGC provided to the OIG, the total costs for the DEGC staff members, after the removal of the overhead rate which HUD stated was not an allowable expense,[40] should be as follows:

[40] HUD Monitoring Response date May 1, 2019, Finding # 5, Corrective Action #2

Table 5: OIG's Breakdown of DEGC Staff Costs Based on DEGC's Payments Requests

DEGC Staff Member	MCM Portion	MCR Portion	Contractor Portion (MCM)	Indirect Portion	Total
Adrienne Ziegler	$0	$0	$0	$49.23	**$49.23**
Andrew Lucco	$82,952.57	$0	$11,330.61	$0	**$94,283.18**
Anthony Askew	$197,491.56	$0	$48,242.50	$0	**$245,734.06**
Becky Navin/DEGC Legal[41]	$0	$0	$27,237.50	$0	**$27,237.50**
Brian Watkins	$0	$0	$0	$164.29	**$164.29**
Charla Sanders	$183,964.08	$0	$11,507.58	$0	**$195,471.66**
Cydney Camp	$74,870.43	$0	$0	$0	**$74,870.43**
Denise Colona	$138,568.48	$0	$0	$0	**$138,568.48**
Elizabeth Reaves/Brinson	$0	$0	$0	$16,814.61	**$16,814.61**
Glen Long	$0	$0	$0	$76,686.87	**$76,686.87**
Gregoire Eugene-Louis	$0	$30,406.08	$0	$0	**$30,406.07**
Hafsa Khan	$3,444.25	$6,992.87	$25,466.70	$0	**$35,903.82**
Helen Broughton	$183,254.22	$13,803.85	$43,290.00	$0	**$240,348.18**
Jacki Suupi	$0	$0	$0	$157.54	**$157.54**
Keith Rodgerson	$0	$55,680.00	$0	$0	**$55,680.00**
Kelly Shovan	$0	$0	$0	$11,846.57	**$11,846.57**
Keyra Cokley	$48,900.80	$0	$0	$0	**$48,900.80**
Kyla Carlsen Latosha Franklin	$93,850.16 $47,817.95	$19,222.32 $6,574.27	$0 $0	$0 $0	**$113,072.48** **$54,392.22**
Lily Hamburger	$0	$55,149.72	$0	$0	**$55,149.72**
Malik Goodwin	$0	$0	$0	$1,975.66	**$1,975.66**
Mariangela (Mimi) Pledl	$0	$0	$0	$58,455.95	**$58,455.95**
Martha Potere	$32,696.73	$21,797.82	$0	$0	**$54,494.59**
Matt Early	$0	$0	$0	$11,387.71	**$11,387.71**
Michael Forsyth	$188,073.08	$0	$34,557.25	$0	**$222,630.33**
Michael Marshall	$193,765.12	$0	$0	$0	**$193,765.12**
Mike Rafferty	$0	$0	$0	$11,540.51	**$11,540.51**

[41] The fee for legal services and the contractor portion of the payments did not include the 18% overhead rate.

DEGC Staff Member	MCM Portion	MCR Portion	Contractor Portion (MCM)	Indirect Portion	Total
Mohamad Diab	$0	$0	$2,162.00	$0	**$2,162.00**
Olga Stella	$0	$0	$0	$32,272.95	**$32,272.95**
Orza Robertson	$0	$0	$0	$67,604.23	**$67,604.23**
Regina Bell	$0	$0	$0	$303.62	**$303.62**
Rod Miller	$0	$0	$0	$22,439.22	**$22,439.22**
Tiffini Smith	$0	$0	$0	$315.11	**$315.11**
Virginia Wilkinson	$0	$0	$0	$1,943.18	**$1,943.18**
Waymon Guillebeaux	$0	$0	$0	$1,362.14	**$1,362.14**
OIG's Recalculated Total	**$1,469,647.43**	**$209,626.93**	**$203,794.14**	**$315,319.39**	**$2,198,390.03**
				DEGC Invoice Total[42]	**$2,557,417.53**
				Difference	**$359,027.50**

In response to the 2018 HUD monitoring report, HRD also conducted a detailed review of the DEGC Staff Costs for the MCM/MCR programs. However, HRD's approach was slightly different from the OIG's approach. HRD used the information from DEGC to recreate a record of the expenses into a format more suitable for HUD reporting requirements. The changes to the reporting format were necessary for DEGC staff expenses to identify the percentage of time the employee worked on the program. When recreating the invoices, HRD also recalculated the employee fringe benefit rate and eliminated the hourly rate calculation used by DEGC.

DEGC's staff work five 7.5 hours days each week, for a total on 37.5 hours per week. DEGC staff members are paid twice a month. To calculate the employee's hourly rate, DEGC used the following calculation:

> (Semimonthly Payroll Rate x 24 Pay Periods)/1950 annual hours (37.5 hours standard hours per week x 52 weeks)

The City believes that because the DEGC employees at times worked more or less than the 1950 hours per year, the hourly rate calculation was inaccurate and that actual costs incurred would be more appropriate for the staff calculation. The City's position ignores the fact that DEGC did not request reimbursement for actual costs. Furthermore, it overlooks the fact that DEGC staff are salaried employees who would receive the same salary, regardless of the number

[42] Table 2, DEGC staff costs based on the DEGC invoices.

hours worked. OIG's search of HR/payroll sources[43], DEGC's calculations are in line with other accepted calculations to convert a semi-monthly payroll into an hourly rate.

The OIG's primary concern with HRD's approach is that instead of taking the existing expenditures and putting them into a proper format, new expenses that were not part of the initial draw requests were added into HRD's program summary when responding to the HUD 2018 Monitoring Report. When submitting their reimbursement requests to HRD, DEGC did not use actual costs, but costs based on their hourly rate calculations and other rates agreed upon in their contract. These expenses were not included when HRD requested reimbursement from HUD, therefore, including the actual costs in response to the HUD audit creates a misleading picture of how the funds from HUD were used. The additional expenses may be valid, but the OIG does not believe those expenses should have been used in the HRD response to HUD to justify prior draws of funds. However, the final determination on the validity of the expenses lies with HUD.

MCM Staffing Costs

The HRD Program Summary allocated the DEGC staff salaries to each track under the programs based on the percentage of time worked on each track. The OIG used HRD's percentages[44] with our revised staff calculations to determine the following staff costs per track:

Table 6: DEGC Staff Costs for the MCM Program

DEGC Staff Member	Total	Business Plan Track	Space Track	Design Track	Cash Track
Adrienne Ziegler	**$49.23**	$5.55 (11.28%)	$11.16 (22.67%)	$19.55 (19.39%)	$22.97 (46.67%)
Andrew Lucco	**$82,952.57**	$4,147.63 (5%)	$77,145.89 (93%)	$1,659.05 (2%)	$0
Andrew Lucco (Contractor)	**$11,330.61**	$0	$11,330.61 (100%)	$0	$0
Anthony Askew	**$197,491.56**	$19,749.16 (10%)	$19,749.16 (10%)	$19,749.16 (10%)	$138,244.09 (70%)
Anthony Askew (Contractor)	**$48,242.50**	$0	$24,121.25 (50%)	$0	$24,121.25 (50%)
Brian Watkins	**$164.29**	$18.53 (11.28%)	$37.24 (22.67%)	$31.85 (19.39%)	$76.67 (46.67%)
Charla Sanders	**$183,964.08**	$36,792.82 (20%)	$36,792.82 (20%)	$36,792.82 (20%)	$73,585.63 (40%)
Charla Sanders (Contractor)	**$11,507.58**	$3,452.27 (30%)	$3,452.27 (30%)	$4,603.03 (40%)	$0
Cydney Camp	**$74,870.43**	$0	$0	$44,922.26 (60%)	$29,248.17 (40%)

[43] https://smallbusiness.chron.com/calculate-hourly-wages-semi-monthly-pay-period-10044.html
[44] HRD's Revised Program Summary, Prorate Support

DEGC Staff Member	Total	Business Plan Track	Space Track	Design Track	Cash Track
Denise Colona	**$138,568.48**	$55,427.39 (40%)	$13,856.85 (10%)	$6,928.42 (5%)	$62,355.82 (45%)
Elizabeth Reaves/Brinson	**$16,814.61**	$2,007.86 (11.94%)	$4,035.51 (24%)	$3,451.94 (20.53%)	$7,846.82 (46.67%)
Glen Long	**$76,686.87**	$8,648.57 (11.28%)	$17,382.36 (22.67%)	$14,868.73 (19.39%)	$35,787.21 (46.67%)
Hafsa Khan	**$3,444.25**	$0	$861.06 (25%)	$1,722.13 (50%)	$861.06 (25%)
Hafsa Khan (Contractor)	**$25,466.70**	$0	$6,366.68 (25%)	$12,733.35 (50%)	$6,366.68 (25%)
Helen Broughton (Jan. 2016-August 2017)	**$141,842.77**	$0	$70,921.39 (50%)	$70,921.39 (50%)	$0
Helen Broughton (Sept. 2017-April 2018)	**$41,411.56**	$0	$10,352.89 (25%)	$31,058.67 (75%)	$0
Helen Broughton (Contractor)	**$43,290.00**	$0	$0	$43,290.00	$0
Jacki Suupi	**$157.54**	$17.77 (11.28%)	$35.71 (22.67%)	$30.55 (19.39%)	$73.52 (46.67%)
Kelly Shovan	**$11,846.57**	$1,336.03 (11.28%)	$2,685.22 (22.67%)	$2,296.92 (19.39%)	$5,528.40 (46.67%)
Keyra Cokley	**$48,900.80**	$0	$0	$0	$48,900.80 (100%)
Kyla Carlsen	**$93,850.16**	$0	$0	$0	$93,850.16 (100%)
Latosha Franklin	**$47,817.95**	$0	$28,960.77 (60%)	$2,390.90 (5%)	$16,736.28 (35%)
Malik Goodwin	**$1,975.66**	$222.81 (11.28%)	$447.82 (22.67%)	$383.06 (19.39%)	$921.97 (46.67%)
Mariangela (Mimi) Pledl	**$58,455.95**	$6,592.53 (11.28%)	$13,250.02 (22.67%)	$11,333.96 (19.39%)	$27,279.44 (46.67%)
Martha Potere	**$32,696.73**	$0	$0	$4,904.51 (15%)	$27,792.22 (85%)
Matt Early	**$11,387.71**	$1,284.28 (11.28%)	$2,581.21 (22.67%)	$2,207.95 (19.39%)	$5,314.26 (46.67%)
Michael Forsyth	**$188,073.08**	$0	$37,614.62 (20%)	$18,807.31 (10%)	$131,651.16 (70%)
Michael Forsyth (Contractor)	**$34,557.25**	$0	$6,911.45 (20%)	(3,455.73 10%)	$24,190.08 (70%)

DEGC Staff Member	Total	Business Plan Track	Space Track	Design Track	Cash Track
Michael Marshall	**$193,765.12**	$155,012.10 (80%)	$38,753.02 (20%)	$0	$0
Mike Rafferty	**$11,540.51**	$1,301.51 (11.28%)	$2,615.85 (22.67%)	$2,237.58 (19.39%)	$5.385.57 (46.67%)
Mohamad Diab (Contractor)	**$2,162.00**	$1,081.00 (50%)	$1,081.00 (50%)	$0	$0
Olga Stella	**$32,272.95**	$3,639.67 (11.28%)	$7,315.20 (22.67%)	$6,257.37 (19.39%)	$15,060.71 (46.67%)
Orza Robertson	**$67,604.23**	$7,624.25 (11.28%)	$15,323.63 (22.67%)	$13,107.71 (19.39%)	$31,548.64 (46.67%)
Regina Bell	**$303.62**	$34.24 (11.28%)	$68.82 (22.67%)	$58.87 (19.39%)	$141.69 (46.67%)
Rod Miller	**$22,439.22**	$2,530.65 (11.28%)	$5,086.22 (22.67%)	$4,350.72 (19.39%)	$10,471.64 (46.67%)
Tiffini Smith	**$315.11**	$35.54 (11.28%)	$71.42 (22.67%)	$61.10 (19.39%)	$147.05 (46.67%)
Virginia Wilkinson	**$1,943.18**	$219.15 (11.28%)	$440.45 (22.67%)	$376.76 (19.39%)	$906.82 (46.67%)
Waymon Guillebeaux	**$1,362.14**	$153.62 (11.28%)	$308.75 (22.67%)	$264.10 (19.39%)	$635.67 (46.67%)
OIG's Recalculated Total	**$1,961,525.57**[45]	$311,223.38	$459,474.11	$365,075.63	$825,752.44

Based on the DEGC records provided to the OIG, a review of the MCM websites listing the program winners and the business information provided to the OIG from HRD, the OIG calculated the following number of businesses assisted per track:

- 585 Businesses in the Business Plan Track
- 329 Businesses in the Space Track
- 84 Businesses in the Design Track
- 139 Businesses in the Cash Track

The OIG reviewed all businesses that applied during Rounds 1-11. For Round 12 (April 2018-June 2018, the OIG only counted the business if the application was received before April 30, 2018. The OIG then used the number of businesses assisted per track and DEGC staff costs per track to calculate the following average staff cost:

[45] Table 5-MCM, Contractor, and Indirect Totals, less expenses for DEGC Legal, immaterial difference of $2.11.

Track	# of Businesses	DEGC Staff Cost Total[46]	DEGC Staff Cost Average[47]
Business Plan	585	$311,223.38	$532.01
Space	329	$459,474.11	$1,396.58
Design	84	$365,075.63	$4,346.14
Cash	139	$825,752.44	$5,940.67

MCR Direct Staffing Costs

Based on the OIG's review of the MCR Program Guidelines, only the Design track with MCR was funded with CDBG funds while the Construction track is funded with philanthropic and municipal funds. The OIG reached out to HRD to ask why only the design track was used in the summary, with HRD confirming only expenses related to the design track were eligible for CDBG funding. The OIG used HRD's percentages[48] with our revised staff calculations to determine the following staff costs per track:

Table 7: DEGC Staff Costs for the MCR Program

DECG Staff Member	Space Salary	Design Salary	Total
Gregoire Louis	$15,203.04	$15,203.04	**$30,406.08**
Hafsa Khan	$0	$6,992.87	**$6,992.87**
Helen Broughton	$0	$13,803.85	**$13,803.85**
Keith Rodgerson	$27,840.00	$27,840.00	**$55,680.00**
Kyla Carlsen	$19,222.32	$0	**$19,222.32**
Latosha Franklin	$3,287.14	$3,287.14	**$6,574.27**
Lily Hamburger	$25,368.87	$29,780.85	**$55,149.72**
Martha Potere	$8,283.17	$13,514.65	**$21,797.82**
Total	**$99,204.54**	**$110,422.39**	**$209,626.93**[49]

According to the records provided by HRD, a total of 26 businesses were assisted through the MCR program, with an average staffing cost of $4,247.02 per business using the design salary. None of the technical assistance invoices were paid prior to April 2018, so those payments were not part of the OIG's review.

[46] Table 6, Staff totals per track
[47] Total per track divided by the number of businesses assisted per track
[48] HRD's Revised Program Summary, Prorate Support
[49] Table 5-MCR Total

Summary

There are significant differences in the OIG's calculation of the staff expenses and the total from the HRD Program Summary, as the summary uses actual personnel costs incurred instead of the costs that were reimbursed by HUD. While the draft report did explore these differences in detail, it is ultimately HUD's decision on whether or not to allow this change in staff expenses.

Since the OIG's focus was on reconciling how the funds drawn from HUD were used for the programs, we did not make changes to the staff calculations, outside of removing the ineligible overhead rate. The legal expenses were not listed anywhere on the Program Summary, so the OIG classified those expenses as ineligible for purposes of this report. The OIG also classified any staff salaries for the Space portion of the MCR Program, based on HRD's statement that only design expenses qualified for funding. Based on these changes, the OIG calculated the following:

Table 8: Revised DEGC Staff Costs

DEGC Invoice Total for Staff	$2,557,417.53
Less Overhead Expenses	($359,027.50)
Less Legal Expenses	($27,237.50)
Less Space Salary for MCR	($99,204.54)
OIG's Calculated Staff Total	**$2,071,947.99**

D. Businesses Assisted Through the MCM Program

In response to the HUD Monitoring Report, HRD reviewed the MCM files to provide clear documentation to HUD regarding how many businesses were assisted through the program and how much CDBG funding was spent on each business. HRD's review also classified the businesses into a "status" based on their review. HRD provided the following description for each status:[50]

- *Open:* Businesses that both met the national objective and are either currently open, or were open over the past 5 years;
- *Canceled With Draws-Business Expansion:* Businesses with strong support that DEGC did everything possible to get the business operational, yet the businesses still failed;
- *Canceled With Draws-Non Transactional:* Businesses with a good idea or a need for space/design assistance that did not become operational despite DEGC's best efforts to make the business viable;
- *Failed:* Businesses that received assistance and met the national objective but that were not able to either exchange goods and services or become operational;
- *Remit-Business Expansion:* Businesses that were provided assistance after showing an intent to relocate their business to the City of Detroit, but failed to do so. The national objective was not met, so HRD proposed remitting these funds to HUD;
- *Remit-Non Transactional:* Business owners outside the City of Detroit, who did not become or continue to be operational. As above, HRD proposed remitting these funds to HUD; and

[50] Email from HRD, dated April 17, 2020 explaining the status categories used on the program summary

- *Conflict of Interest:* Businesses that were not eligible for MCM assistance based on a conflict, such as employment with the City of Detroit, at the time assistance was provided. HRD proposed remitting these funds to HUD.

In addition to the categories above, HRD's program summary also include cash staffing expenses. There are no vendor costs associated with this category, only DEGC staffing expenses. Of the business assisted through the cash track, HRD further determined which business were eligible and which were ineligible, however, the information used to make this determination was not provided to the OIG. The OIG also identified a number of business that applied for the programs or appear as program winners on the website, but are not listed on HRD's program summary. Those businesses are shown with an unknown status. The Technical Assistance Costs were tied directly to the business assisted when possible. The OIG also spread the DEGC Staff Costs and Program Delivery Costs among all of the businesses assisted during the OIG's review period, as shown in the table below:

Table 9: OIG's Calculation of MCM CDBG Expenditures

Status	# of Businesses	DEGC Staff Costs	Technical Assistance	Program Delivery Costs	Total CDBG Funds Spent
Open	214	$567,755.51	$746,507.78	$835,837.91	$2,150.101.20
Canceled w/ Draws-Business Expansion	27	$68,616.17	$77,018.17	$105,456.18	$251,090.52
Canceled w/ Draws-Non Transactional	45	$49,461.99	$71,418.19	$175,760.31	$296,640.49
Failed	50	$77,884.58	$102,342.66	$195,289.23	$375,516.47
Remit-Business Expansion	180	$134,005.43	$139,383.83	$703,041.23	$976,430.49
Remit-Non Transactional	177	$153,605.09	$203,788.75	$691,323.88	$1,048,717.72
Conflict of Interest	5	$24,962.81	$52,983.29	$19,528.92	$97,475.02
Ineligible Cash Staffing	93	$552,482.31	$0	$363,237.97	$915,720.28
Unknown Status (MCM)	199	$331,358.99	$69,937.92	$771,251.14	$1,128,666.13
MCR Open	25	$106,175.50	$0	$97,644.62	$203,820.12
MCR-Remit	1	$4,247.02	$0	$3,905.78	$8,152.80
Total	**1016**	**$2,070,555.40**	**$1,463,380.59**	**$3,968,277.18**	**$7,452,331.25**

When determining the cost per business, the OIG used all of the businesses assisted, less those declined or withdrawn, instead of just eligible business under the program. The OIG also removed the $49,200 for PSI that HRD deemed ineligible on its program summary when determining the program delivery costs per business. Using all of the businesses paints a clearer picture of per business allocation, and clearly identifies expenses that should be remitted not only for staff costs and technical assistance, but program delivery as well.

Therefore, the OIG removed the overhead expenses from the staff salaries, expenses classified as "conflict of interest" and classified all expenses HRD identified as "remit" to calculate the following revised program summary:

Table 10: OIG's Revised Summary of MCM/MCR Program Costs

	DEGC Invoice Total	Overhead/Ineligible Total	Eligible Expenses
Program Delivery	$4,017,477.18	($1,466,999.81)	$2,550,477.37
Technical Assistance Providers	$1,463,380.59	($396,155.87)	$1,067,224.72
DEGC Staff Costs	$2,557,415.53	($802,289.89)	$1,755,125.64
Corrections/Adjustments	($175.98)	$0	($175.98)
Subtotal	**$8,038,097.32**	**$2,665,445.57**	**$5,372,651.75**
		Revised HUD Draws	**$8,038,100.03**
		Less Eligible Expenses	**$5,372,651.75**
		Less Indirect Costs De Minimis [51]	**$537,265.18**
		OIG's Calculation of Ineligible Expenses	**$2,128,183.10**

It is important to note the OIG's calculation of ineligible expenses is based on the information available to the OIG at the time of our review, as well as our assessment of the program costs based on the review invoices, payments and reimbursement draws from HUD. The final determination of the amount deemed ineligible will be determined by HUD.

In addition, the OIG has concerns the businesses under the canceled and failed categories are not eligible to be classified as Activity Delivery Costs (ADC). This is based on HUD's CDBG guidance via a webinar[52] that states "that projects that do not proceed to completion cannot be charged as ADCs." HUD Notice CPD 13-07[53] also states "where an activity is not

[51] 10% of eligible Direct Staffing Costs and Program Delivery Contractor Costs as allowed by HUD.
[52] https://www.hudexchange.info/trainings/courses/allocating-staff-costs-between-administrative--activity-delivery-costs-for-cdbg-grantees-webinar/
[53] https://files.hudexchange.info/resources/documents/Notice-CPD-13-07-Allocating-Staff-Costs-Program-Administration-Delivery-Costs-CDBG.pdf - Pg. 11

completed, or the activity does not meet a CDBG national objective, the up-front costs must be allocated as PACs because they cannot be associated with achieving a final cost objective."

Under the MCM program, the activity would be to "start new, permanent businesses in Detroit's commercial corridors by providing assistance throughout the business start-up and building renovation process[54]." Therefore, costs related to the activity, such as staff costs and technical assistance directly benefiting the business owners, would qualify as an ADC.

However, based on the HUD guidelines, the businesses that did not become operational did not meet the activity necessary to classify the costs associated with those businesses as ADCs. However, again the OIG will defer to HUD for the final determination whether the costs associated with the failed and canceled businesses are ineligible for reimbursement.

VII. Analysis of Program Spending

The complaint alleged that most of the money drawn for the programs was used for vendor and staffing expenses, instead of direct benefit to the business. Program Delivery Contractors and DEGC Staff Costs are not specific to one business, but serve the program as a whole. The Technical Assistance providers are the only vendors the OIG could link directly to individual businesses.

With that being said, the unadjusted Program Delivery and DEGC Staff Costs categories of expenses account for $6,574,892.71[55] (81.8%) of the $8,038,100.03 in funds drawn from HUD through July 6, 2018. Only $1,463,380.59[56] (18.2%) of the amount drawn was for technical assistance, or explained more clearly, direct benefit of the businesses assisted under the program.

Just analyzing and reviewing the above-reference numbers, the records show there was more money paid to vendors for planning, implementing, advertising and administering the programs than what was paid to vendors directly assisting the businesses. Therefore, we conclude the MCM and MCR programs, which were intended to benefit business owners, provided minimal direct assistance to the business owners as compared to what was paid out to the program delivery vendors and DEGC staff.

VIII. Discrepancies in Information Provided to the OIG

While reconciling the information provided by HRD to the documentation provided by DEGC, the OIG also discovered 7 businesses were listed on the HRD spreadsheet twice. There are businesses that show both a remit status and another status, which raises concerns that HRD may be returning money to HUD for businesses deemed ineligible when they may be eligible for reimbursement. In the OIG's calculations, either the open or canceled status

[54] MCM Business Owner Program Guidelines, Pg. 2
[55] Program Delivery from Table 2 totaling $4,017,477.18 plus revised DEGC staff costs from Table 8 totaling $2,071,947.99
[56] Technical Assistance Providers total from Table 4

was used when a duplicate business was found, unless both businesses were in remit status. The duplicate businesses are also shown on the following table:

Business Name	Alternative Name	Status
3 Treasures (Space)	MBS (Business Plan)	3 Treasures-Open; MBS Remit
De-Tread (Business Plan)	Izzies Logistics (Space)	De-Tread-Remit; Izzies-Open
Lakey’s Bites (Business Plan)	Mocco Bar (Space)	Lakey’s-Remit; Mocco-Cancel
JD Springs Manufacturing (Space)	Children’s Investment CDC (Business Plan)	Remit for Both
La Isla (Space)	La Cabana (Business Plan)	Remit for Both
LCD Hot (Design)	LiveCycleDelight (Space)	Both Open
ARW Adult Day Center (Business Plan, Space)	N/A-Just listed Twice	Both Failed
Hustler’s Wife	The Hustler’s Wife	Both Open

IX. Recommendations

Based on our investigation, the OIG has the following recommendations for the MCM program:

1) Additional training should be implemented in the following areas for HRD employees and sub recipients:
    a. Grant Administration process;
    b. Grant Objectives;
    c. Documentation Standards;
    d. Difference between Eligible and Ineligible Expenses; and
    e. Proper Expense Classification.
2) Increased monitoring of sub-recipients by:
    a. Conducting a thorough review of payment requests and supporting documentation;
    b. Identifying work performed on the program and track program time; and
    c. Auditing, on a regular basis, to ensure grant objectives are met and funds are spent appropriately.

Based on the OIG’s assessment of the size of the MCM program, the OIG is recommending quarterly audits for the program.

In the City’s response to the OIG’s draft report, we note the City is currently increasing its training to prevent this type of HUD audit in the future.

X. Conclusion

It is important to note the OIG's review of the MCM program is not to question its purpose, but rather the administration of the program. Several concerns were raised in the complaint received by the OIG, including excessive draw requests that did not line up with the number of businesses opened. Based on our investigation, the OIG finds the concerns about the MCM expenditures to be valid. The investigation revealed requests for payments were paid without proper review, even after an employee of ODG expressed concerns with the payments and questioned whether the payments aligned with HUD requirements. The City disagrees with this assessment, stating the payment requests were properly reviewed and that the employee did not raise any concerns about them until after the HUD audit. Given that it is our understanding the employee alerted HUD about her concerns, it seems more likely than not those concerns were expressed with her superiors as she stated.

According to OIG's review of the documentation submitted, 76.5% of the businesses assisted through the programs failed. The complaint raised concerns that an activity with such a high failure rate may not be the best use of CDBG funds meant to benefit low-to-moderate income individuals. According to the U.S. Small Business Administration, 66% of business survive the first year and 50% survive at least five years.[57] The review period covered less than four years, making the 76.5% failure rate excessive. Furthermore it is not unreasonable to expect a program like MCM, a program that assisted the owners with training, locating a suitable space, preparing the space for opening and financing, to have a failure rate less than the national average. The OIG understands the executive branch has the authority to design and implement economic development plans and programs for the City. However, the high failure rate associated with the MCM/MCR programs warrants a review by all policy makers and stakeholders to determine if the program is the best use of CDBG funds.

While failed businesses are to be expected with any economic development program, the OIG's primary concern is the amount of money that has been deemed ineligible. The bulk of the loss, as calculated by the OIG, could have been prevented with proper oversight.

In addition to barring City of Detroit employees from applying for MCM, further losses could have been prevented by simply requiring that the business owners be City of Detroit residents. While the OIG understands there would be interest in having businesses relocate to the City, using the CDBG grant as a funding source left the City open to repaying those funds, because of the strict guidelines for compliance with the grant. CDBG funds were granted by DEGC not only to businesses in the metro-Detroit suburbs, but also to businesses outside of the state, like Georgia and California, as well as outside the country, like Canada and France.

DEGC also let City of Detroit employees apply for the programs, which was not allowed per their guidelines. The expenses associated with these businesses are shown as "conflict of interest" in Table 9. The OIG therefore concludes this is waste, which would have been prevented had DEGC followed their own established guidelines, and not allowed City of Detroit employees to receive assistance. Such training would have reduced the number of ineligible businesses assisted through the program.

[57] https://www.sba.gov/sites/default/files/Business-Survival.pdf

HRD's follow-up to HUD's request for additional information created even more problems for the programs. While attempting to justify the HUD draws for the MCM/MCR programs through July 2018, HRD added new expenses that were not part of the original draw request. The response included a recalculation of the reported DEGC staff expenses and fringe rate.

Proper training of the staff monitoring the DEGC payment requests would have identified that the staff expenses were not in the proper format. If the requests had been formatted and reported correctly, HRD would not have needed to recalculate and recreate the expenses when questions are raised about program spending. Therefore, we find additional training and a detailed review of the payment requests would have revealed concerns pertaining to excessive costs relative to the number of businesses assisted and improper cost classification of some of the expenditures.

While it is possible that HRD could have identified additional expenses that could have been charged to the programs, how they presented the expenses to HUD is concerning. The additional expenses were presented as if they were a part of the original draw request, and used to reconcile the program expenses to the draw request. This reveals a continued lack of oversight with regards to the management of the program and proper reporting of program expenditures. Furthermore, it paints a misleading picture of how the funds were used on the programs. While DEGC may have incurred the expenses as outlined in HRD's Program Summary, they did not request reimbursement for actual costs. Therefore, using the actual costs in response to the HUD audit gives the appearance that funds drawn were used to pay staff expenses when the funds were actually used for other expenses.

Lastly, the City requested that the OIG's final report be put on hold until the HUD audit is completed. The OIG is not able to do so per our rules. It is important to note the OIG and HUD serve different purposes. The OIG is simply fulfilling its duty under the Charter in reporting its finding after investigating the complaint. It is our hope that this report fully addresses the issues raised in the complaint, and provides a clear picture of how the funds were spent in the programs.

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October 6, 2020

Ellen Ha
Inspector General, City of Detroit
65 Cadillac Square, Suite 3210
Detroit, MI 48226

RE: OIG Case No. 19-0018-INV

Dear Ms. Ha,

I write in response to the OIG's Draft Report in Case No. 19-0018, "Motor City Match Investigation" ("Draft Report").[1] This letter does not purport to provide an exhaustive response to the findings laid out in the Draft Report, though a point-by-point response to some of the findings are included as Appendix A. Rather—because the OIG investigation and the Draft Report are taking place while a federal Department of Housing and Urban Development (HUD) audit is ongoing—I respectfully request that a final report not be released until after HUD has completed its audit.

The Draft Report focuses almost exclusively on the Motor City Match program's relationship with HUD. It makes numerous findings regarding the program's reporting to HUD—as well as its compliance with HUD regulations. The Draft Report concludes, for example:

- "There are significant differences between the expenses reported in DEGC's original payment reimbursement requests to HRD and the HRD MCM/MCR Program Summary ***reported to HUD*****";**
- "DEGC's contract for staff expenses included an overhead rate, ***which is not allowed by HUD's guidelines*****";**
- "DEGC classified a majority of the MCM/MCR costs as ADC's, ***which may be in violation of HUD regulations*****."**

Draft Report at 5 (emphases added).

The Draft Report also makes numerous findings about the information the City's Housing and Revitalization Department (HRD) provided to HUD, during the course of the ongoing HUD audit. These findings, however, are primarily predicated on a single *interim* summary document, which was provided to HUD by HRD as part of that audit. Since that time, there have been multiple exchanges of information

[1] The Draft Report covers both the Motor City Match (MCM) and Motor City Re-Store (MCR) programs. For ease of reading, these programs are collectively referred to as "Motor City Match" in this response.

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between HRD and HUD, to which OIG has not been privy. The Draft Report is thus premised on incomplete data, from a single snapshot in time.

Compounding matters, the Draft Report uses that incomplete data as a launching point for speculation that City staff members may have engaged in fraud and manipulation of data. Those accusations lack foundation, and are wholly inaccurate. It is beyond the cavil, in my opinion, for the Draft Report to engage in unfounded speculation that impugns the motives of City professionals, based on an incomplete understanding about an audit that is still ongoing.

Fundamentally, then, the Draft Report's conclusions are both premature and inappropriate. The Draft Report was issued against the backdrop of an *ongoing* HUD audit, one in which there is an ongoing exchange of information between HUD and the City of Detroit. I submit, respectfully, that it is inappropriate for the OIG to jump the gun on the HUD audit, and to conclude that the City failed to abide by HUD regulations ***before HUD itself has an opportunity to weigh in.***

I. The Draft Report is Based Primarily On Incomplete Data From An Ongoing Audit

A. Background

In 2018, HUD began auditing the City's Motor City Match Program "in order to assess [the City's] performance and ***compliance with applicable Federal program regulations and requirements***." *Letter from Keith E. Hernandez, U.S. Department of Housing and Urban Development, to Donald Rencher, Director, HRD,* September 24, 2018 (attached as Appendix B) ("September 24 Letter") (emphasis added). Since that time, the City has worked with HUD to provide information relevant to the audit, and to reconcile *all* costs—both those eligible for HUD reimbursement and those that are not—related to the Motor City Match program.

Crucially, as part of its initial audit of the Motor City Match Program, HUD determined that HRD was not maintaining proper procedures for reporting to HUD business-specific costs incurred as part of the Motor City Match program. HUD requires program costs related to Motor City Match to be specifically broken down by the *business* that is being assisted. As of 2018, however, HRD was instead tracking costs related to the Motor City Match *program as a whole*, without breaking them out by the business assisted. HUD determined that the HRD's procedures were thus "insufficient" because they failed to:

> identify every CDBG-assisted entity touched by the CDBG funded assistance, confirm the amount of CDBG used to assist each of those entities, confirm the national objective classification met by each of those entities and then confirm what documents were on file for each entity to support that the outcome of its CDBG assistance met the intended national objective.

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Letter from Keith E. Hernandez, U.S. Department of Housing and Urban Development, to Donald Rencher, Director, HRD, May 1, 2019 ("May 1 Letter"), at 3 (attached as Appendix C). *See also id.* at 2 (HRD's reporting and tracking procedures were "insufficient to ensure accurate reporting . . . includ[ing] how to identify which IDIS eligible activity matrix code and national objective code to report for each assisted entity"); *id.* at 3 (HRD's initial corrective action did not adequately "ascertain which of the assisted businesses met a CDBG eligible activity and national objective").

Because HRD had historically failed to track costs in accordance with HUD requirements, it was exceedingly difficult for HRD to demonstrate to HUD which costs were eligible for reimbursement, and which were not. As a result, HRD and HUD mutually agreed that, as part of HUD's ongoing audit, HRD would submit *all* relevant costs to HUD for review, and HUD would review those costs for eligibility. Importantly, HRD and HUD agreed that it would be appropriate for HRD to submit costs incurred *through December 2018.*

B. The Draft Report Misinterprets the Data Submitted to HUD

On May 10, 2019—after the HUD audit had been underway for approximately one year—the OIG received a complaint from a former City of Detroit employee regarding the City's reimbursement procedures for the Motor City Match program. *See* Draft Report at 2. That complaint sparked an OIG investigation. The subject of the OIG investigation was whether "payment reimbursement requests" related to the Motor City Match and Motor City Re-Store programs "meet Department of Housing and Urban Development (HUD) standards." *Id.* Despite the clear overlap between the ongoing HUD audit and the OIG investigation, the OIG investigation proceeded contemporaneously with the HUD audit.

On September 22, 2020, the OIG issued the Draft Report regarding its investigation. The Draft Report is almost entirely focused on documentation that HRD submitted to HUD as part of HUD's ongoing audit. In particular, much of the Draft Report is focused on the "Program Summary" HRD submitted to HUD "when responding to the HUD 2018 Monitoring Report." *Id.* at 8.

The Draft Report concludes that the Program Summary impermissibly *included* several categories of costs that were ineligible for HUD reimbursement—including, for example, costs incurred after May 2018, and improperly calculated personnel costs. *See id.* at 44-45. In fact, as described in Appendix A and broken out in Appendix I (attached) this is explicitly not what occurred. The Draft Report further concludes that the Program Summary *omitted* other "indirect costs" that were incurred as part of the Motor City Match program, and were also ineligible for reimbursement. On the OIG's account, the sum total of "omitted" costs ($1.29 million) is roughly the same as the impermissibly included costs ($1.275 million). *Id.* at 45.

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The Draft Report then speculates—without any supporting evidence—that "[t]here *seems* to be a relationship between the omitted costs and the inflated costs in other program areas." *Id.* (emphasis added). Taking things a step further, the Draft Report then engages in speculation-upon-speculation regarding the motives of City professionals who have participated in the audit process, stating:

> The OIG believes the numbers were inflated in other program areas for one of the following reasons:
>
> • To cover-up the over $1.27 million dollar hole created by the missing payments to indirect vendors; or
> • To intentionally understate the ineligible expenses.

Id. at 45 (emphasis added). There is absolutely nothing in the Draft Report to support the OIG's "belief" that "the numbers were inflated" for such purposes. And indeed, they were not.

1. The Purportedly "Inflated" Costs Included in the Program Summary Were Included Following Consultation With HUD, and Documentation is Being Consistently Updated

As an initial matter, it is not the case that HRD "inflated" the sum total of eligible costs in the Program Summary it submitted to HUD as part of the HUD audit. Because of HRD's historic failure to adequately break down Motor City Match costs by business, HRD and HUD jointly determined that HRD would submit all costs associated with the Motor City Match in its Program Summary, *not* just those that were eligible.

The Draft Report, moreover, faults HRD for submitting to HUD expenses paid "after May 2018." *Id.* at 44. Because the Program Summary included expenses paid through *December* 2018, the Draft Report concludes that HRD "inflated" the program costs it submitted to HUD. *Id.* at 45. Again, though, that conclusion is inaccurate, and lacks context. Initially, there was some question about whether HRD should submit costs through July 13, 2018, or through December, 2018. But in September 2020 (*before* the Draft Report was issued) HUD confirmed to HRD that December, 2018, was the appropriate cut-off point.

The reason that HRD submitted *all* costs—not just the costs eligible for reimbursement—in its initial Program Summary is because HRD is in the process of working to account for every dollar drawn down as part of the Motor City Match Program. HRD's initial failure to track costs by business (which was flagged early in HUD's audit process) has made this task more difficult. But since March 2019, HRD, in an effort to give the most precise information to HUD auditors possible, HRD has been working on a comprehensive audit of DEGC's Motor City Match expenses. It has regularly appraised the HUD Detroit Field Office of its progress on that audit, and has regularly supplemented the documentation it submitted to HUD as its audit progresses.

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In short, then, the Program Summary on which the Draft Report places so much emphasis is merely a preliminary summary, provided to HUD as part of HUD's ongoing audit. Neither HRD nor HUD expected that the Program Summary would be the final documentation provided to HUD. Indeed, HRD has continuously updated the documentation it has submitted to HUD as part of HUD's audit. (Examples of specific recent communications between HRD and HUD are included as Appendix D). The Draft Report thus focuses on a single document—provided to HUD at a single snapshot in time—during the course of an ongoing audit.

Given that the HUD audit is ongoing—and given that HRD has subsequently worked with HUD to update documentation—it is unfair and inappropriate for the Draft Report to draw such sweeping conclusions from that Program Summary.

2. The Indirect Costs on Which the Draft Report Focuses Were Inadvertently Omitted

The Draft Report also highlights the fact that "$1,296,699.16 in indirect costs were omitted from HRD's summary to HUD." Draft Report at 45. It then speculates that there is some "relationship between the omitted costs" and what the Draft Report incorrectly suggests are "inflated costs in other program areas." *Id.* That is incorrect.

During the summer of 2019, the Economic Development Corporation of the City of Detroit ("EDC"), which is required to keep full records of all Motor City Match activities, provided the City with documentation related to the Motor City Match program costs. That documentation omitted program costs for several vendors, and missing program costs totaling $1,707,975.35. Those costs included the $1.29 million in "omitted" costs highlighted in the Draft Report. Because the City used the EDC records in compiling the Program Summary for HUD, those costs were inadvertently omitted.

In May, 2020, as a result of the OIG investigation, HRD discovered that those costs had been inadvertently omitted. HRD immediately informed DEGC, and sent EDC a Notice of Default (attached as Appendix E). It is simply incorrect to speculate that those costs were intentionally omitted.

C. It is Inappropriate to Release a Report in the Midst of an Ongoing HUD Audit

The foregoing, I respectfully submit, illustrates why it would be inappropriate to finalize the Draft Report at this time. The Draft Report is based primarily upon single interim submission, prepared for an ongoing HUD audit. Since that submission was sent to HUD in March, HRD and HUD have engaged in regular communication via email regarding those costs. Meetings were held on September 18, September 4, and another in July. Emails were exchanged on April 2, April 13, April 17, May 6, June 3, June 4, July 28, September 4, and September 8—all related to HRD's submission. OIG has not had the benefit of any of that discussion.

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Towards that end, I ask that you defer to the ongoing HUD audit, and hold your Draft Report's findings until HUD has been able to complete its audit and monitoring. The Draft Report itself seems to recognize (as a conceptual matter) the need to defer to the ongoing HUD audit. It indicates, for example, that OIG "did not review the MCM/MCR program to determine whether the HRD was complying with HUD Objectives" and that the "OIG is deferring such matters to HUD for its independent determination." *Id.* at 5.

Despite that caveat, however, almost all of the Draft Report's conclusions are based on the OIG's suggestion that the City failed to comply with *federal HUD* regulations. By way of example, the Draft Report concludes:

- "DEGC classified a majority of the MCM/MCR costs as ADC's, ***which may be in violation of HUD regulations***," *id.* at 6 (emphasis added);
- "***HUD stated*** . . . the removal of the overhead rate . . . was not an allowable expense," *id.* at 13 (emphasis added);
- "Charging the full monthly salary to the program without reductions for paid leave, such as sick, vacation, and holiday, or other hours[49] not worked by the employee ***is a violation of the HUD guidelines***," *id.* at 17 (emphasis added);
- **"*Based on the OIG's review of federal regulations,*** the salary calculations HRD submitted to HUD are incorrect," *id.* at 18 (emphasis added);

These are all issues that should be properly addressed by HUD in the first instance. And indeed, the process of addressing those issues are well underway. HUD has provided HRD specific guidance, over the course of its audit, referring to calculations of fringe benefits, direct and indirect staff costs/expenses, invoice draw date, and ineligible expenses (see Attachments I and J for examples). HUD will continue to collaborate with HRD through completion of this monitoring.

Publishing the Draft Report report at this time, however, would materially set back the City's ability to bring these issues to conclusion. Among other things (and as explained in further detail in Appendix A), the alternative approaches to calculations are not consistent with our discussions, or with email exchanges between HRD and HUD, in which OIG has not participated. An interim OIG report that is at odds with the ultimate conclusions reached by HUD will only serve to confuse the public—as well as undermine public confidence in both the OIG investigatory and HUD audit process.

Instead of releasing the report in the midst of an ongoing audit, I suggest that OIG instead perform an "after-action" report, following the conclusion of HUD's audit, identifying where mistakes were made. Such a report would allow OIG to conform its conclusions regarding federal law to the federal agency itself—and to allow reforms beyond those identified as a result of the HUD audit to be undertaken.

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II. ODG Did Not "Ignore" Staff Warnings That Payment Requests from DEGC Did Not Meet HUD Guidelines

As discussed above, this letter primarily submits that OIG should defer release of its final findings until after the ongoing HUD audit has concluded. Two specific (and related points), however, bear clarification at this juncture. *First,* contrary to the Draft Report's suggestions, HRD and the Office of Development and Grants (ODG) consistently scrutinized DEGC's reimbursement requests for HUD compliance, and did so well before 2018. *Second,* contrary to the Draft Report's conclusions, ODG did not "ignore[ ] staff that payment requests from DEGC did not meet HUD guidelines." Draft Report at 6. Just the opposite is true.

A. The Program Overview In The Draft Report is Incomplete and Inaccurate

In the Draft Report's overview of the Motor City Match program, the only source of information cited was the "account" of Kennedy Shannon, a former employee of ODG who was terminated for falsification of time. *See* Draft Report at 5. As described in the Draft Report:

> Kennedy Shannon, a former employee with the City of Detroit Office of Development and Grants (ODG), gave a detailed account of how DEGC received payment for the MCM/MCR programs. The programs are paid for on a reimbursement basis. DEGC administers the MCM/MCR programs and pays for the expenses from its own funds. DEGC then submits a payment request for reimbursement to HRD. HRD reviews and approves the request, less any costs HRD determines are not allowed by the grant guidelines, and forwards the request to ODG. ODG also reviews the payment requests for compliance and reasonableness, and identifies any costs that are not allowed. When either HRD or ODG determines there are disallowed costs, they send DEGC a deficiency letter for the disallowed amount, while the costs deemed allowed are sent to Grants Accounting for payment to DEGC.
>
> Ms. Shannon stated this is a process that started in September 2018, after the 2018 Monitoring Report was issued. Prior to the report, Ms. Shannon stated the payment requests were not scrutinized, nor was DEGC ever audited as a grant sub-recipient.

Id. Several aspects of Ms. Shannon's account bear correcting.

First, upon receipt of the invoice packet from DEGC, HRD reviews the packet for completeness and contract compliance—it does not simply "review and approve the request." *But see* Draft Report at 5. The packet is then passed to the Office of Department Financial Services (ODFS) to ensure funds are available within the account string.

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Second, the process for identifying disallowable costs are more robust than outlined in the Draft Report. Following receipt of the packet from HRD, *ODFS* (not HRD) then sends the packet to ODG, which confirms that all documentation is complete and that the activities are allowable. If there are concerns with the documentation, or questions about allowability, these are raised with HRD for follow-up, as HRD is the entity responsible for contract compliance.

Associated costs are held until the questions are resolved. Approved costs, however, are simultaneously moved forward through the payment process, to meet the reimbursement timeline required by HUD.

Third, and perhaps most crucially, it is simply incorrect that this process "started in September 2018, after the 2018 [HUD] Monitoring Report was issued." Draft Report at 5. The process outlined above was formalized in 2017, and a workflow and processing checklist was created to ensure all parties were aware of their required steps. *See* Appendix F (workflow and processing checklist). Ms. Shannon should be well aware of all of this, as she participated in the creation of the workflow and processing checklist in 2017. *See* Appendix G (email from Ms. Shannon regarding workflow and processing).

B. ODG Did Not "Ignore" Staff Warnings Regarding HUD Guidelines

Given the foregoing, the Draft Report's conclusion that "ODG ignored staff warnings that payment requests from DEGC did not meet HUD guidelines," *id.* at 6, is both unsupported and unsupportable. The Draft Report offers no facts to support its conclusion that ODG "ignored staff warnings," beyond the say-so of a terminated employee. *See id.* at 2 (noting that Ms. Shannon's complaint alleged that ODG "ignored concerns."). And to the best of our knowledge, no such facts exist.

Indeed, during 2018, Ms. Shannon and I spoke repeatedly about HUD's audit and monitoring, and the potential for process improvements. Audits like HUD's generally provide helpful guidance and clarification, and recommendations to improve program effectiveness. Ms. Shannon and I spoke about some of the potential findings to that point. And throughout the summer and fall of 2018, we spoke about the ways in which HRD might improve practice based on conversations with HUD, to ensure that corrective actions were adopted and enforced by ODG. Whenever Ms. Shannon raised concerns, I elevated those concerns within the OCFO and within HRD's leadership to ensure appropriate attention was being paid to resolving those concerns. *See* Appendix H (samples of emails between myself, my supervisor Ryan Friedrichs, and Ms. Kennedy).

In addition, Ms. Shannon and I worked together during Ms. Shannon's tenure with the City to improve documentation of the work undertaken by Ms. Shannon and her team. As part of this process, a payment tracker was created to ensure that payments did not linger for long periods of time without movement, and so it would be clear to all parties where payments were and what steps remained. The creation of that payment tracker not only helped document the process by which payments were approved, it also helped allow timely payment to subrecipients and contractors. The City has faced

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significant challenges making timely payments to subrecipients and contractors—and the tracking system was initiated to proactively identify strategies to reduce these challenges.

Finally—and further undermining the conclusion that ODG "ignored" these issues—subrecipient training was rolled out jointly by HRD and ODG in 2018 and has been well-attended by subrecipient awardees. In addition, HRD and ODG staff annually attend HUD trainings to ensure that the City is active in its uptake of best practices and any new guidance, super-circulars or other regulations issued by HUD.

In sum, no facts support the conclusion that ODG "ignored" staff warnings or has otherwise been derelict in seeking to improve its compliance with HUD regulations. When the Draft Report is finalized—and, to reiterate, we believe it should be *after* the conclusion of the HUD audit—all findings regarding ODG "ignoring" staff warnings should be excised.

Sincerely,

katerli bounds

Katerli Bounds
Deputy Chief Financial Officer, Office of Development and Grants

CC: Arthur Jemison, Group Executive for Housing, Planning and Development
Donald Rencher, Director – Housing & Revitalization Department

OIG Finding	APPENDIX A Response
There are significant differences between the expenses reported in DEGC's original payment reimbursement requests to HRD and the HRD MCM/MCR Program Summary reported to HUD.	**This is correct, however, when HUD originally monitored HRD, they did not believe the invoice packets originally submitted to HRD by the DEGC provided sufficient information needed by HRD to support the costs submitted. Therefore HRD undertook an audit of the DEGC beginning in March of 2019 which is still underway to recreate the record of expenses. HUD is aware that HRD is undertaking the audit and that HRD would report actual costs incurred and allocate those costs by activity (business) as HUD requested.** HRD has worked with the DEGC to obtain financial information on actual costs incurred using DEGC general ledger information, and using other forms of documentation such as the original invoice packets, to help collect support documentation. This includes an analysis of Personnel costs, Activity Delivery costs vs. Direct costs, Indirect costs, as well as a providing Cost Allocations among each activity (business) as applicable. Expenses reported in original invoice packets often were reported in the wrong category (ex: Direct Staffing vs. Indirect Staffing) often caused by confusion of the definition of such categories. Often personnel costs were improperly categorized and needed to be reviewed and allocated to the correct category based on HUD guidance. **As it relates to personnel cost calculations, the calculation originally provided by DEGG in original invoice packets did not reflect actual personnel costs incurred**. The formula in the original invoice packets assumes every DEGC works 1950 hours annually; however - DEGC staff are salaried employees and after reviewing the formula that DEGC used to break down each salary into an hourly rate, it became apparent that DEGC employees did not always work 1950 hours in a calendar year. In some instances, staff worked under 1950 hours in a calendar year and in other instances staff worked more than 1950 hours in a calendar year HRD made the decision that they were not comfortable with submitting a different hourly rate to HUD than the original hourly rate originally invoiced and paid for. Because of this, HRD used actual costs incurred, which reflects exactly what DEGC paid during each pay period and then used those amounts and multiplied it by time spent on the program – which was provided by DEGC's staff. As mentioned above, it is also important to note that HRD did accurately account for how much of an employee's time needed to be charged to the MCM program. HRD used a proration of allocated funds for this model. HRD did NOT use the entire monthly salary for each employee unless they were 100 percent working on the Motor City Match program. If employee X worked 20 hours on Motor City Match and the remaining on another project outside of Motor City Match/Restore, then they were paid for that percentage out of actual costs incurred for that portion worked on Motor City Match. Percentages were determined through interviews with DEGC

	staff, while job descriptions were additionally provided. A more in-depth example is provided below, showing OIGs reference inaccurate and misleading. OIG states that HRD did not account for partial payments such as when an employee is hired in the middle of the month; however, HRD argues that the DEGC calculation in the original invoice packets did not in fact take this into consideration. DEGC took their semi-monthly payroll rate times the pay period (24) and divided this by 1950 hours. However, if an employee started halfway into the year, they would never have worked 1950 hours. Staff at DEGC are salary and the issue here is that it's difficult to take a salary and compute into an hourly rate. HRD looked at all actual costs paid for time spent on Motor City Match and allocated actual costs to each track of the Motor City Match program. <u>Example:</u> OIG states on page 20 that HRD calculated Employee B's salary as $7,715.42. <u>**The $7,715.42 was not a calculated amount for that time period, it was an amount provided by the DEGC as the amount that was actually paid to the employee.**</u> The calculated rate the DEGC used on the invoice was an estimate based on the employee working a certain number of hours (1950). Employee B worked 110.5 hours during the month in question. Per the DEGC, he was paid $7,715.42 for that time, 100% of which was spent working on MCM. <u>Example:</u> Employee C worked 2122.5 hours in 2017. Using the DEGC calculated rate on 1950 hours (as recommended here by OIG) HRD would have overcharged HUD for this employee by 8.85%. Employee hours on HRD's summary report were supplied by the DEGC. Any discrepancy is a result from incorrect information from the DEGC.
The HRD MCM/MCR Program Summary used the total amount drawn through July 6, 2018 for reconciliation purposes. However, HRD improperly used expenses paid after July 2018 in their reconciliation to justify the MCM/MCR expenses submitted to HUD.	**This is incorrect. Yes, HRD used $8,286,714.53 as its first response to HUD in March 2020 in order to respond to the amount cited in HUD's monitoring report. <u>However, it is important to understand that this process is on-going and by no means finalized, as HRD's intent is to account for every dollar drawn for the MCM/MCR programs.</u> Currently HRD is evaluating additional documentation and is working to update its summary to reflect all expenses drawn through December 2018 equating to $8,997,672.48 and has communicated that with the HUD Detroit Field Office.** The Detroit HUD Field Office and HRD meet regularly to review all support documentation (the most recent meeting being 9/18/20), and have discussed that the end goal is to account for every dollar drawn by HRD for Motor City Match and Restore. HRD's intent was never to tie back the original invoice packets submitted by DEGC, because they were insufficient to begin with. HRD is working with DEGC and HUD to balance an overall

	number submitted to HUD by providing proper support documentation for eligible costs spent on eligible activities. **It is the goal to reconcile ALL expenses submitted for the program, not just those through July 2018, and the HUD Detroit Field Office is aware of that strategy.** Additional information will be submitted to HUD in the coming months reflecting these actions.
The HRD MCM/MCR Program Summary recalculated the DEGC staff wages and fringe benefit rates, using expenses that were not initially in the HUD draw requests;	**This is correct. HRD does not believe the original calculation of staff wages and fringe rates submitted by the DEGC reflected actual costs. HRD used actual costs incurred by the DEGC versus the original hourly rate submitted by DEGC per guidance from HUD.** HRD reallocated actual DEGC staff wages and fringe rates by using the total amount of actual costs paid to DEGC, not the original formula used by DEGC. HRD took the total costs paid to DEGC for MCM/MCR and divided it by the percentage of time spent on each track, resulting in an allocation that is prorated for each employee. HRD believes this is necessary and reasonable based on HUD guidance that staffing be reported by business served. **However, after further review and analysis HRD was able to confirm that the initial calculation of including paid leave with time spent on the Motor City Match program was inaccurate. As a result, HRD removed paid leave time from the formula and reimbursed for paid leave through the "loaded rate". Changes were submitted to HUD with the updated summary sheet, which is still being used for purposes of discussion with HUD.**
HRD's recalculation of the fringe rate varied by employee and was not in line with the flat rate as agreed upon in the contract between EDC and the DEGC for MCM;	**This is correct, HRD interpreted the HUD monitoring report to say that a flat fringe rate could not be used, and that HRD would need to pay DEGC for the actual costs incurred if fringe rates were to be reimbursed. HUD has always asked for actual costs. The subrecipient agreement will be updated to reflect all necessary changes necessary to be in compliance with HUD guidance.** Original fringe rates were used for the purposes of demonstrating actual costs. This is a cost reimbursement contract and should have represented actual costs incurred by the subrecipient. HUD determined in the finding that using a flat fringe rate did not properly reflect actual costs incurred, Therefore the city looked at actual costs and reimbursed based on that. In addition, the subrecipient agreement will be updated to reflect this change in order to make the agreement compliant with HUD, which is also required in order to complete our finding resolution.
DEGC's contract for staff expenses included an overhead rate, which is not	**Correct. HRD removed fees related to the 18% administrative overhead fee because fees charged by subrecipients are not allowable.** The subrecipient agreement was amended (amendment #4) to reflect no fee can be charged against CDBG funds. The expenses incurred were included in potential remittance category to HUD.

allowed by HUD's guidelines.	However, although the overhead rate included on the original set of pay requests was unallowable since DEGC did not have an approved indirect cost rate, **DEGC is allowed a de minimus indirect cost rate based on ten percent of Modified Total Direct Cost (MTDC)**. This includes costs incurred under administrative costs not subject to program delivery.
HRD's submission to HUD omitted over $1.2 million in indirect vendor expenses that were included on the original DEGC payment requests, with the amount redistributed primarily as added expenses to the DEGC staff salaries reported	**This finding is misleading and incorrect. Part of HUD's finding including a full reconciliation of the IDIS system by activity (business). In addition, this would include accounting for every dollar drawn for the MCM/MCR program. Currently, HRD is working with the Detroit HUD Field Office to reconcile expenses through December 2018, not through May 2018 as suggested by the OIG. Attached is the MCM Support Documentation (APPENDIX I, Tab 1 – Summary Breakdown) which shows that expenses were not redistributed to DEGC staff salaries.** **HRD had not reviewed some program delivery expenses that were inadvertently included in reports submitted by the DEGC, but once notified by OIG immediately notified the DEGC (APPENDIX E - default letter attached) began that review and has submitted updated information to HUD.** HRD used a master spreadsheet and general ledger that was requested by HRD and given to HRD by the DEGC. This request is consistent with typical audits and nothing out of the ordinary. The original invoice packets were used only to double check against the general ledger for supporting documentation for businesses served. As stated above, the original intent was to identify and align costs up to businesses served through Motor City Match and Restore. Any missing items were inadvertently left off excel spreadsheets reflecting the general ledger, and are now being reviewed for eligibility and will be provided to HUD. The reconciliation completed by HRD was completed to the best of our ability using the data supplied to us at the time of the request. Once the information from OIG was brought to the attention of HRD, a default letter was issued to DEGC (APPENDIX E), and records were obtained so that a review of missing data could be completed. Please note, HRD takes the assertion of purposely omitting documents seriously and never intentionally omitted information from HUD. HRD did not use the original invoice packets from DEGC to drive their audit, instead HRD used a master spreadsheet from the DEGC and also a general ledger that was given to HRD from the DEGC. The reconciliation of financial documents and resolution of the finding are still in process, and are actively being discussed with the Detroit HUD Field Office. HRD and DEGC have been fully transparent is sharing records and providing access to records. These costs are currently still being reviewed for accuracy and eligibility and will be included in the updated summary sheet being submitted to HUD in the coming months as HRD works with HUD to finalize the review of the MCM program.

DEGC classified a majority of the MCM/MCR costs as ADC's, which may be in violation of HUD regulations.	**Incorrect. All costs associated with Motor City Match are considered Activity Delivery costs (please see APPENDIX J - CPD Notice - 13-07). MCM is an eligible CDBG activity and is not considered a planning and administration activity. All these costs are considered reasonable and necessary to the delivery of MCM. This includes all vendors listed in the Activity Delivery portion of the HRD Summary sheet provided to HUD.** In addition, it is important to note that the OIG's description of staff duties listed on page 13 did not accurately reflect program staff duties. HRD interviewed numerous DEGC staff and supervisors to review duties for each position and created a table (APPENDIX I – Tab 2) that demonstrates staff provided direct assistance to businesses participating in the program. Any staff that did not serve as central direct assistance to Motor City Match businesses or entrepreneurs based on HRD's review were deemed administrative and added to the potential remittance category submitted to HUD.
ODG ignored staff warnings that payment requests from DEGC did not meet HUD guidelines, and that some of the expenses were excessive and possibly ineligible for reimbursement;	**Incorrect. Prior to the HUD monitoring, there was no reason to believe that the structure of the invoicing to HUD was incorrect. Once HUD performed its monitoring, HRD and ODG began to meet with HUD to understand exactly what HUD was requesting. During that process, invoices slowly evolved in order to accommodate requests from HUD. The City made its best efforts to change invoicing to comply with HUD's requests. Please see APPENDIX F, G AND H.**
The programs provided assistance to business owners outside of the City, creating a disallowed expense when the businesses failed to open	**Correct. The City recognizes that there were ineligible costs tied to businesses that lived outside of the City. In the case where businesses did not complete their expansion process into the City, expenses were included in the proposed remittance to HUD. <u>The inability to meet that goal was caused by the underwriting process and not eligibility.</u>** Businesses who are looking to expand into the City and can demonstrate meeting a National Objective (which in this case was benefitting low-Mod Income People either through creating new jobs (LMJ) or serving eligible areas (LMA)) are eligible to receive CDBG funds.

Other OIG Concerns	HRD Responses
OIG finds businesses under the canceled and failed categories are not eligible to be classified as ADCs (pg. 48)	Activities listed as "Cancel with Draws" are businesses where DEGC demonstrated all due diligence required to assist a business to meet a National Objective, and outside factors affected their ability to open. For example, a business owner who lost their full time job through the process and had to delay their opening. **The allowability of providing forgiveness to grantees (for economic development activities) who can demonstrate due diligence is provided and explained in HUD FAQ ID 2230 (APPENDIX K) and can be made at the discretion of the Field Office.** HRD reviewed all businesses and submitted those under this category where sufficient due diligence was provided to support costs. Additionally, activities (businesses) who are owned by low-to-moderate income Detroit owners and are considered Micro-enterprises (5 or less employees including the owner) meet National Objective (LMC) requirements at the time of application. **So while they may not have successfully opened (failed), per HUD criteria and program set-up, all costs associated with serving low –to moderate – income persons are eligible.**
Concerns about time being charged to CDBG for time spent by staff on the MCM Cash track	The DEGC submitted – and was approved by HRD - for personnel costs (in this case direct staffing costs in which technical assistance was provided for) associated with the cash track. In total, out of 149 businesses, 44 businesses were served in additional tracks through the program that was funded with CDBG funds. HRD believes costs for staff time on these businesses are necessary and reasonable in the assistance to the business, as the cash track is reflective of the assistance provided and success of the business. The use of leveraged funding for the business assistance does not preclude the use of CDBG funding for technical assistance from DEGC staff. DEGC did not report any time spent by the staff listed on the MCR cash track, and therefore no costs were allocated to the program.
Concerns about Waste, Conflict of Interest and Success of the program	Overall, the Motor City Match program has given assistance to 746 businesses and of that 225 businesses have opened up and have created 293 jobs. HRD also recognizes that the overall program did not meet its original goals and also recognizes that a high administrative cost is needed to administer a small business program. Because of this, the City has stopped funding the program with CDBG funds, and is working with HUD Technical Assistance Providers to create a program(s) that are effective and meet the goals of creating jobs, serving neighborhoods and low-income people and ultimately align with federal, state and local standards. **However, HUD is aware that supporting small businesses and other economic development activities and may require additional resources per guidance in their Economic Development Toolkit. With that in mind,**

	HUD created the Public Benefit Standard Test to ensure that an excessive amount of CDBG was not being used on activities that did not provide a significant benefit to LMI persons. HUD's Public Benefit Standards Test (no more than $350/per person of CDBG can be used to serve Low to Moderate Income Area's) for the MCM fell way below the threshold. On average, approximately .55 cents CDBG funding was spent per person in eligible low-to-moderate income areas.

OIG Recommendations	HRD Response and Next Steps
1. Additional training should be implemented in the following areas for HRD employees and sub recipients: a. Grant Administration process; b. Grant Objectives; c. Documentation Standards; d. Difference between Eligible and Ineligible Expenses; and e. Proper Expense Classification.	HRD hosted a 3-day, in-person CDBG Basics course for all HRD staff in 2019. Representatives from ODG, OGA and OCP were also invited and attended. This training is being provided to all new HRD employees on a regular basis and will continue to do so as new employees are hired and programs continue to shift. The training is being provided by the National Community Development Association (NCDA). In addition, beginning September 30th, HRD is providing advanced subrecipient training to all HRD employees who oversee CDBG subrecipients. This training is being provided by NCDA. HRD is also in the process of hiring three (3) additional Subject Matter Experts (SME) as Economic Development Specialists that will oversee CDBG funding allocated to Microenterprise and Small Business Programs. HRD is also looking into advanced CDBG and underwriting training that will specifically go over economic development activities undertaken by HRD. On June 3, 2020, HUD issued a letter to the City of Detroit allowing HRD to continue with undertaking economic development activities. This was related to their comfortability with the capacity built within the department, including the updates to policies and procedures, training and the hiring of SME's to oversee these types of programs.
2. Increased monitoring of sub-recipients by: a. conducting a thorough review of payment requests and supporting documentation; b. Identifying work performed on the program and track program time; and c. Auditing, on a regular basis, to ensure grant	HRD hired a HUD consultant in June of 2019 to assist with the MCM finding, as well as provide consultation on other CDBG funded programs for the department as needed. HRD received Technical Assistance from HUD in January of 2020 to assist with the development of updated policies and procedures and stricter underwriting to ensure HRD has the capacity to oversee any future small business programs funded with CDBG and increase success of the program. CDBG funds have not been allocated to the MCM program since March of 2019.

objectives are met and funds are spent appropriately. Based on the OIG's assessment of the size of the MCM program, the OIG is recommending quarterly audits for the program.	

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT
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September 24, 2018

Mr. Donald Rencher, Director
Housing & Revitalization Department
City of Detroit
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 908
Detroit, MI 48226

Dear Mr. Rencher:

SUBJECT: On-Site Monitoring Report
Community Development Block Grant (CDBG)
Grant Numbers B-16-MC-26-0006 and B-17-MC-26-0006

From May 7, 2018 through May 14, 2018, this Office conducted an on-site monitoring of the Community Development Block Grant (CDBG) program in order to assess your organization's performance and compliance with applicable Federal program regulations and requirements. Program performance was assessed through a review of operations, file documentation, and staff interviews. The purpose of this letter is to transmit HUD's monitoring report, which provides the details of our review. The HUD monitoring team consisted of Kathy Bagley, CPD Representative, and Cynthia Vails, Senior Financial Analyst.

The enclosed report contains nine Findings with Corrective Actions and one Concern with a recommended Corrective Actions. Please provide a written response to the Findings within 60 days of the date of this letter. If you disagree with any of HUD's determinations or conclusions in this monitoring report, please address these issues in writing to this Department within 30 days of this report. Your response should be addressed to myself and emailed to DetroitCPD@hud.gov.

While a response is not required for Concerns, we would appreciate any information you would like to provide. Please note that, in some instances, Findings have resulted in cost disallowances and may involve repayment from local, non-Federal funds. Note that such repayments are to the HUD program account and would thus be available to carry out additional program activities that meet program requirements.

I would like to thank you and your staff for your professionalism and cooperation during the review.

If you have any questions or would like to discuss the enclosed monitoring report's contents or conclusions, please contact Ms. Kathy Bagley, CPD Representative at 313-234-7321 or kathy.f.bagley@hud.gov.

Sincerely,

Keith E. Hernandez, AICP
Director
Office of Community Planning and Development

U.S. Department of Housing & Urban Development
Detroit Field Office
477 Michigan Avenue
Detroit, Michigan 48226

City of Detroit, Michigan
Monitoring Report

Community Development Block Grant Program

Grant Number: B-16-MC-26-0006
Amount: $31,372,385.00
Grant Number: B-17-MC-26-0006
Amount: $31,291,891.00

Monitoring Dates: May 7, 2018 – May 14, 2018

OVERVIEW

Monitoring is the principal means by which HUD ensures that programs and technical areas are carried out efficiently, effectively, and that the programs comply with applicable laws and regulations. It assists grantees in improving their performance, developing or increasing capacity and augmenting their management and technical skills. Also, it provides a method for staying abreast of the efficacy of CPD-administered programs and technical areas within the communities HUD programs serve. Monitoring is not limited to a one-time review but is meant to be an ongoing process that assesses the quality of a grantee's performance over a period of time involving continuous communication and evaluation. In determining which grantees will be monitored, the Department uses a risk-based approach to rate grantees, programs and functions, including assessing the Department's exposure to fraud, waste and mismanagement. This process not only assists the Department in determining which grantees to monitor, but also identifies which programs and functions will be reviewed. Areas reviewed may result in the identification of findings, concerns or exemplary practices.

Specifics relating to this review are as follows:

Date(s) Monitoring Conducted:	May 7, 2018 – May 14, 2018
Type of Monitoring:	On-Site
HUD Reviewer(s):	Kathy F Bagley, CPD Representative Cynthia C. Vails, Senior Financial Analyst
Grantee Staff and Other Participants:	Arthur Jemison, Donald Rencher, Michael Freeman, Valeria Miller, Jill Babcock, Ranna Trivedi, Keisha Pierce, Cynthia Saxton, Greg Andrews, Tamra Fountaine Hardy, Nicole Rodden-Bowen, George Valikodath, Keeyla Davis, Kerry Baitinger, Sandra O'Neal, Kennedy Shannon, Julie Schneider
Entrance Conference:	
Date:	May 7, 2018
Representatives:	Kathy F Bagley, Cynthia Vails, Arthur Jemison, Donald Rencher, Michael Freeman, Valeria Miller, Jill Babcock, Keisha Pierce, Cynthia Saxton, Nicole Rodden-Bowen, Tamra Fountaine Hardy, Ranna Trivedi, Greg Andrews, George Valikodath
Exit Conference:	
Date:	May 14, 2018
Representatives:	Kathy F Bagley, Cynthia Vails, Keith Hernandez, Mark Sorbo, Arthur Jemison, Donald Rencher, Valeria Miller, Michael Freeman, Julie Schneider, Kennedy Shannon, Tamra Hardy, Kerry Baitinger, Keisha Pierce, Jill Babcock, Keeyla Davis, Sandra O'Neal

SUMMARY OF RESULTS AND CONCLUSIONS

The CDBG Program is authorized under Title I of the Housing and Community Development Act of 1974, as amended. The City as an entitlement community and is awarded funding from HUD each year to carryout eligible activities.

The City's CDBG Program was last monitored in 2015. This previous monitoring review resulted in 11 Findings, some of which were related to the Neighborhood Stabilization Program (NSP-3). One Finding from this previous monitoring review remains open and has been incorporated into this report. For our current monitoring review, we conducted reviews of the following areas: Eligibility/National Objectives, Economic Development, Section 108, Neighborhood Revitalization Strategy Areas (NRSAs) and Subrecipient Management. Additionally, in the area of Overall Management Systems, a limited review of URA (Relocation) and procurement activities was conducted.

This report details the results of the monitoring review and contains nine Findings and one Concern. A Finding is identified as a deficiency in program performance based on a statutory, regulatory or program requirement for which sanctions or other corrective actions are authorized. A Concern is a deficiency in program performance that is not based on a statutory, regulatory or other program requirement but is bought to the grantee's attention that, if not properly addressed, could result in deficient performance. Corrective actions are identified for all Findings. A Recommended action is identified for the Concern. Findings must be responded to within 60 days of this letter. Although you are not required to respond to a Concern, a response to any actions you are taking would be appreciated.

Exhibits used to guide the review from the Community Planning and Development Monitoring Handbook 6509.2 are available at:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/cpd/6509.2

Your HUD CPD Representative, Kathy Bagley, CPD Senior Financial Analyst, Cynthia Vails, are available to discuss the results of this monitoring report or provide technical assistance as requested, and can be reached at 313-234-7321 or 313-234-7335, respectively. If you disagree with any of HUD's determinations or conclusions in this monitoring report, please address these issues in writing to our office within 30 days of this report. Your written communication should explain the reasons why you disagree along with supporting evidence and documentation. All communications should be addressed to my attention and emailed to: DetroitCPD@hud.gov.

SCOPE OF REVIEW

The Housing and Revitalization Department (HRD) is the department within the City of Detroit tasked with oversight responsibilities for CPD-funded programs, including the Community Development Block Grant (CDBG) Program. The City typically funds economic development, housing rehabilitation, commercial demolition, public improvements, homeless and public service activities with these funds. We looked at the City of Detroit's implementation of the HUD-approved Neighborhood Revitalization Strategy Areas (NRSAs), the Motor City Match Program, the Detroit 0% Home Repair Loans Program, the tenant relocation assistance at 40 Davenport, and the Section 108 Loan Guarantee Program (Section 108). We reviewed the City's management of subrecipients and followed up on the City's corrective actions for CDBG findings cited in prior years. The scope of the review included reviewing the City's reporting in HUD's Integrated Disbursement and Information System (IDIS), consolidated/action plans, certifications, contracts, policies and procedures, organization charts, financial records, and supporting documentation in the areas of carrying out eligible activities, meeting a national objective, satisfying economic development and NRSA requirements, subrecipient management, and fulfilling Section 108 contractual obligations.

Areas Reviewed and Results

Eligibility and National Objectives

A limited review of the City of Detroit 0% Home Loan Program and an extensive review of the Motor City Match Program were undertaken to assess compliance with the reporting requirements. The purpose of the reviews was to ensure compliance with the eligibility and national objective requirements at 24 CFR 570.201 and 570.208 respectively. The following CDBG activities set up by the City of Detroit in HUD's Integrated Disbursement and Information System (IDIS) covering the Detroit 0% Home Repair Loans Program and the Motor City Match Program were reviewed:

- IDIS Activity #8043: Small Business Development
- IDIS Activity #8223: Economic Development (Commercial Façade Rehabilitation)
- IDIS Activity #8183: Housing Rehab Loan Program NRSA I
- IDIS Activity #8067: Housing Rehab Loan Program

Monitoring of this area was conducted using the following monitoring exhibits from the *CPD Monitoring Handbook 6509.2*:

- Exhibit 3-2: Guide for Review of National Objective of Low- and Moderate-Income Area Benefit

The eligibility portion of the review is covered under the *Subrecipient/Community-Based Development Organization (CBDO) Management* section of this report. Review of the Housing rehabilitation activities is covered under the *Neighborhood Revitalization Strategy Areas (NRSAs)* and the *Subrecipient/Community-Based Development Organization (CBDO) Management* areas of this report. Regarding the Motor City Match Program's compliance with a CDBG National Objective, one finding was cited for insufficient records and IDIS reporting.

<u>FINDING #1: There were insufficient records to support that the Motor City Match Program activities met the Low- to- Moderate Income Area (LMA) national objective and erroneous reporting in the Integrated Disbursement and Information System (IDIS).</u>

Condition: The City provided CDBG funds to a subrecipient, the Economic Development Corporation of the City of Detroit (the subrecipient), to carryout Motor City Match activities, which gave financial and technical assistance to existing and potential up-and-coming small businesses. The Motor City Match Program was reported in HUD's Integrated Disbursement and Information System (IDIS) as meeting the Low- to- Moderate Income Area (LMA) national objective under IDIS Activities #8043 and #8223. According to the City's 2016 Consolidated Annual Performance and Evaluation Report (CAPER), CDBG economic development activities assisted 153 business during the program year. On May 3, 2018, the City of Detroit was notified to make records available during the monitoring review to show how CDBG funds drawn on IDIS Draw Vouchers #6036184, #6059201, #5978726 and #601253 for IDIS Activities #8223 and #8043 met the LMA national objective. The records that the City provided did not show how the funded activities met the LMA national objective.

Neither the City nor the subrecipient maintained enough records to demonstrate that each of the businesses met the LMA national objective per 24 CFR 570.208(a)(1) and 24 CFR 570.506(b)(2). There were insufficient records to evidence that the activities provided benefits to service areas with specified boundaries identified as primarily residential with documented census data by census tract and block group indicating that at least 51 percent of the residents were low and moderate-income persons. As of July 13, 2018, Detroit drew down a total of $7,497,896.49 in CDBG funds on IDIS Activities #8043 and #8223 without maintaining enough LMA documentation. Furthermore, the City set-up IDIS activities #8043 and #8223 to show that the service area for each business was city-wide, which was not accurate.

Criteria: Regarding meeting a CDBG national objective, per 24 CFR 570.200(a)(2), a CDBG Recipient *"…must ensure and maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives contained in its certification. Criteria for determining whether an activity addresses one or more of these objectives are found in §570.208."* In accordance with 24 CFR 570.506(b), records are to be maintained to evidence meeting a national objective. Per 24 CFR 91.525(a)(3), the information is to be reported accurately.

Cause: There were no established policies and procedures required of the subrecipient to correctly qualify Motor City Match CDBG assistance under the national objective requirements. There were no procedures required of the subrecipient to ensure the proper documentation was maintained to evidence every assisted activity met a CDBG National Objective. The City did not have procedures for correctly setting up the Motor City Match activities in IDIS.

Effect: Because the City's subrecipient wasn't verifying and maintaining evidence that the disbursed CDBG funds met a required national objective and was incorrectly reporting in IDIS that every business provided services to low-to-moderate income residents on a city-wide basis, it was not clear that the use of the funds was eligible in every instance of providing CDBG dollars to the for-profit entities.

Corrective Actions: The City and its subrecipient need to complete the following corrective actions.

1. The City needs to develop policies and procedures to guide the subrecipient on maintaining sufficient records to evidence each activity funded by CDBG meets a national objective. It might be helpful for the City to consider using the flexibilities granted under the HUD-approved Neighborhood Revitalization Strategy Area (NRSA) designation for documenting compliance

with a national objective. Also, the HUD CPD Maps tool found online at https://egis.hud.gov/cpdmaps/ could be a useful tool in producing records to support meeting the LMA national objective. A tutorial is available on YouTube at www.youtube.com/watch?v=CPRmVosjsQk&feature=youtu.be.

2. The City needs to develop procedures for how the Motor City Match activities will be set-up and reported accurately in IDIS.

3. The City needs to work with the subrecipient to compile the documentation that each CDBG-assisted activity met a national objective. For the activities that meet LMA without the NRSA designation, there needs to be records for each business that includes a map of the boundaries for the area where the residents are benefitting from the business' services, identifies the census tracts and blocks that make up the service area, provides the average percentage of low-to-moderate income residents from the block groups, and verifies the area is primarily residential.

4. The City needs to correct for the reporting errors in IDIS Activities #8043 and #8223 by making modifications and possibly setting up new activities in IDIS to accurately report the national objective of the CDBG-assisted businesses. The IDIS draw vouchers will likely need to be amended to the correct IDIS activities and the performance data will need to be entered appropriately.

5. The City needs to submit to HUD the records to evidence that the CDBG assistance met a national objective for the fourteen businesses selected for review during the monitoring visit, on IDIS draw voucher #6036184, IDIS Activity #8223. The businesses are:

    1. Queen Butterflies LLC
    2. Sfumato Fragrances
    3. Cake Ambition
    4. Live Cycles Delight
    5. Skin Bar (aka Revive My Skin)
    6. Impact Community Health
    7. Natural Market
    8. Detroit Mushroom Factory
    9. Thank You Mart
    10. Ingenuity College Preparatory Institute
    11. IC Data Communications
    12. Single Woman Power Network
    13. Sure Shot Logistics
    14. Arroz Con Pollo

6. For any portion of the funds that do not have sufficient evidence of meeting a CDBG national objective, the City must remit an amount up to the $7,497,896.49 that was drawn as of July 13, 2018 on IDIS Activities #8043 and #8223.

Economic Development

The purpose of this review was to assess compliance with CDBG economic development requirements for the Motor City Match Program. The IDIS Activities that were monitored included:

- IDIS Activity #8043: Small Business Development
- IDIS Activity #8223: Economic Development (Commercial Façade Rehabilitation)
- IDIS Activity #8505: Economic Small Business Development (Motor City Match) (Businesses in NRSA 5)

Monitoring of this area was conducted using:

- Exhibit 3-12 - Guide for Review of Individual Economic Development Activities and
- Exhibit 3-13 - Guide for Review of Economic Development Public Benefit Individual and Aggregate Standards.

One finding was identified in this program area.

FINDING #2: There were insufficient records to evidence meeting the Economic Development Underwriting and Public Benefit Standard requirements for the Motor City Match Program.

Condition: As of July 13, 2018, the City of Detroit drew down a total of $8,286,714.53 for the Motor City Match Program. That includes $4,498,615.50 in 2013 and 2014 CDBG funds on IDIS Activity #8043, $2,999,280.99 in 2016 CDBG funds on IDIS Activity #8223, and $788,818.04 in 2017 CDBG funds on IDIS Activity #8505. These funds provided the Economic Development Corporation of the City of Detroit (the Subrecipient), the resources for Motor City Match Program activities. According to the activity descriptions in IDIS, the funds were used to provide financial assistance to small businesses. The City selected IDIS matrix code to report that the activities qualified under CDBG regulation 24 CFR 570.203(b), which is direct financial assistance to for-profits for economic development purposes.

The City provided CDBG funds directly to for-profits without performing financial underwriting required by CDBG regulations at 24 CFR 570.209(a). If CDBG assistance is provided to a for-profit business under 24 CFR 570.203(b) appropriated in any year before Fiscal Year (FY) 2015, the program participant must conduct financial underwriting in accordance with 24 CFR 570.209(a), but the underwriting guidelines in Appendix A to Part 570 are not mandatory. If assistance is provided for the same purpose with CDBG funds appropriated in Fiscal Years 2015 and later, the program participant is required to conduct financial underwriting in accordance with the underwriting guidelines in Appendix A to Part 570. The City used funds from Fiscal Years 2013, 2014, 2016, and 2017. For the FY2013 and FY2014 CDBG funds, it was expected that the Subrecipient would have conducted basic financial underwriting prior to the provision of CDBG financial assistance. For the FY2016 and FY2017 CDBG funds, there should have been underwriting per the Appendix A to Part 570 guidelines.

After the monitoring visit was completed, the City communicated to HUD that the Motor City Match assistance was exempted from these requirements because the for-profits qualified under the CDBG regulations as Microenterprise businesses at 24 CFR 570.201(o). While it is possible that some of the Motor City Match businesses fit the definition of Microenterprise, defined as having no more than five employees per section 102(a)(22) of the Housing and Community Development Act of 1974, as amended, there were no records maintained or IDIS reporting to evidence the City was qualifying the assistance under this CDBG regulation.

The City also provided CDBG funds directly to for-profits without evaluating public benefit required by CDBG regulations per 24 CFR 570.209(b), (c), and (d). The use of the standards for public benefit is mandatory for all economic development activities regardless of Fiscal Year.

Criteria: The guidelines per 24 CFR 570.209 are "to assist the recipient to evaluate and select activities to be carried out for economic development purposes. Specifically, these guidelines are applicable to activities that are eligible for CDBG assistance under 24 CFR 570.203." "These guidelines are composed of two components: guidelines for evaluating project costs and financial requirements; and standards for evaluating public benefit." The expectation is that underwriting to evaluate project costs and financial viability will be conducted for all CDBG direct assistance to for-profit entities. If the funds are from FY2015 or later, the for-profit CDBG activities have to be evaluated and selected in accordance with Appendix A to 24 CFR 570 - *Guidelines and Objectives for Evaluating Project Costs and Financial Requirements* pursuant to section 105(a)(17) of the Act (P.L. 113-235, Consolidated and Further Continuing Appropriations Act, 2015, Division K, Title II, Community Development Fund and subsequent annual Appropriations Acts). The standards for evaluating public benefit are mandatory.

Cause: The City of Detroit did not have policies and procedures for documenting compliance with the CDBG Economic Development Underwriting and Public Benefit Standard requirements.

Effect: If the underwriting is not performed for economic development activities, then the City does not have the requisite records to evidence that the projects are financially viable and the most effective use of CDBG. If the minimum level of public benefit is not documented, then the City does not have the requisite records to evidence that the projects are the most effective use of CDBG.

Corrective Actions: The City and its subrecipient need to complete the following corrective actions:

1. To determine if the Economic Development Underwriting and Public Benefit Standard requirements apply, the City needs to develop policies and procedures requiring the subrecipient evidence the correct CDBG eligible activity. Then for the activities qualified as Direct Financial Assistance to For-Profits per 24 CFR 570.203(b), there needs to be procedures for evaluating and selecting economic development projects per 24 CFR 570.209 and Appendix A to 24 CFR 570 as applicable. Specific to aggregate public benefit standards, the recommendation is that the City consider qualifying the Motor City Match activities using the HUD-approved Neighborhood Revitalization Strategy Area (NRSA) designation for documenting an exemption, thus increasing a grantee's flexibility for program design as well as reducing the record-keeping requirements for meeting a public benefit cited at 24 CFR 570.209(b)(2)(v)(L) and (M).

2. The City needs to work with the subrecipient to document that each CDBG-assisted activity met the guidelines for evaluating and selecting economic development projects per 24 CFR 570.209 and Appendix A to 24 CFR 570 as applicable.

3. If any of the CDBG-assistance is re-classified to an eligible activity other than the provision of assistance to a private for-profit business per 24 CFR 570.203(b), then the City must maintain sufficient supporting documentation for the reclassification and amend the set-up in IDIS accordingly.

4. The City needs to submit to HUD the records evidencing that the CDBG assistance met the underwriting and public benefit requirements per 24 CFR 570.209 and Appendix A as applicable for the fourteen businesses selected for review during the monitoring visit, on IDIS draw voucher #6036184 for IDIS Activity #8223. The businesses are:

    1. Queen Butterflies LLC
    2. Sfumato Fragrances
    3. Cake Ambition
    4. Live Cycles Delight
    5. Skin Bar (aka Revive My Skin)
    6. Impact Community Health
    7. Natural Market
    8. Detroit Mushroom Factory
    9. Thank You Mart
    10. Ingenuity College Preparatory Institute
    11. IC Data Communications
    12. Single Woman Power Network
    13. Sure Shot Logistics
    14. Arroz Con Pollo

5. For any portion of the funds that do not have sufficient evidence of meeting the Public Benefit Standard requirements and the Underwriting requirements, when applicable, the City must remit an amount up to $8,286,714.53 that was drawn as of July 13, 2018 for IDIS Activity numbers 8043, 8223, and 8505.

<u>Neighborhood Revitalization Strategy Areas (NRSAs)</u>

The purpose of our review of Neighborhood Revitalization Strategy Areas (NRSAs) was to examine the HUD-approved NRSA Strategy and associated Consolidated Plan, the data in Integrated Disbursement and Information System (IDIS), and the Consolidated Annual Performance and Evaluation Reports (CAPER) and Annual Action Plans to determine compliance with Program requirements related to NRSAs contained at 24 CFR 91.215(g) and in Notice CPD-16-16, *Neighborhood Revitalization Strategy Areas (NRSAs) in the Community Development Block Grant (CDBG) Entitlement Program*. Monitoring Exhibit 3-15, *Guide for Review of a HUD-Approved Neighborhood Revitalization Strategy Area (NRSA)*, was used for the review. Two findings were identified in this program area.

<u>FINDING #3: The City of Detroit did not sufficiently report Neighborhood Revitalization Strategy Area (NRSA) outputs and outcomes.</u>

Condition: On December 14, 2014, the City of Detroit developed a strategy to transform neighborhoods utilizing a HUD CDBG designation called the Neighborhood Revitalization Strategy Area (NRSA). The City's plan proposed to "restore neighborhood stability and create jobs for Detroit residents" by strategically targeting the City's federal funds within geographically defined areas per the NRSA requirements. On February 9, 2015, HUD approved the City's proposed strategy and the designation of five NRSAs within Detroit. The activities planned for the NRSAs included housing development, job creation, job training and placement, youth employment and wealth building. While there were additional administration and reporting requirements tied to the carrying out the NRSA plan, the NRSA designation allowed increased flexibilities within the CDBG's regulatory requirements for using the funds in those areas.

The City did not report on its NRSAs in the Consolidated Annual Performance and Evaluation Report (CAPER) for the 2015 and 2016 program years. The CAPER did not include information on the CDBG dollars spent on activities in NRSAs nor did it report leveraged resources documented as cash and/or in-kind resources and the City did not report its progress in achieving the benchmarks proposed in its HUD-approved NRSA strategy.

The City of Detroit did not fulfill the reporting requirements imposed as a condition of the NRSA approval according to Notice CPD-16-16: *Neighborhood Revitalization Strategy Areas (NRSAs)in the Community Development Block Grant (CDBG) Entitlement Program*. First, the City did not identify and involve stakeholders. The stakeholders were not made aware of the NRSA's progress, planned activities and new investments that were taking place in the neighborhoods. Second, the City did not conduct annual public hearings regarding the NRSAs. The City funded economic development activities but did not report on creating or retaining jobs based upon its approved NRSA strategies. Furthermore, the City used CDBG to fund employment opportunities but did not report out on the opportunities according to the targeted populations identified within the NRSAs per City's application. The City did not report on providing the supportive services in the NRSAs and the City did not report on how the CDBG funds were spent in the NRSAs in coordination with other public and private resources.

Criteria: Per 24 CFR 91.520(d), the CAPER "shall include a description of the use of CDBG funds during the program year and an assessment by the jurisdiction of the relationship of that use to the priorities and specific objectives identified in the plan, giving special attention to the highest priority activities that were identified."

Cause: The City did not comply with the NRSA reporting requirements because of a lack of oversight to ensure that its NRSA strategies put forth in its application were implemented according to HUD regulations and guidance. No policies and procedures were implemented to help ensure oversight.

Effect: Without the requisite NRSA reports, it was unclear if the City of Detroit was carrying out the NRSA strategies that HUD approved in the City's December 31, 2014 application. This put into question the eligibility of the City's use of the NRSA incentives such as it did with the Detroit 0% Home Repair Loans Program by the aggregating housing units to meet the low-to-moderate income housing (LMH) National Objective.

Corrective Action: The City needs to complete the following:

1. Provide for improved oversight of the NRSAs;

2. Develop policies and procedures for carrying out the HUD-approved NRSA plan that includes maintaining records and following the standards in HUD Notice CPD-16-16; and

3. Include the NRSA reporting in the 2017 CAPER due September 30, 2018.

<u>FINDING #4: The City of Detroit did not accurately report the Aggregation of Housing Units under the NRSA incentive for the Detroit 0% Home Repair Loans Program in the 2016 CAPER.</u>

Condition: According to HUD's 2016 CAPER review letter dated April 5, 2018, the City reported in IDIS Activity #8183 that the aggregation of assisted houses in NRSA #1 did not meet the minimum 51% low-to-moderate income requirement for the activities to meet a CDBG national objective. During the monitoring visit we observed that the housing unit data reported on IDIS Activity #8183 for the 2016 program year had changed since the 2016 CAPER was submitted in IDIS. We compared the new data in IDIS to the City's tracking sheet for completed units in NRSA#1 and the verified that the income data matched. More than 51 percent of the 18 completed units had initial occupants whose household incomes were at or below 80 percent of area median income. We concluded that the City submitted the 2016 CAPER to HUD without fully entering all the completed housing unit data in IDIS.

Criteria: Per 24 CFR 570.208(a)(3) and (d)(5)(ii), Housing units assisted in an approved NRSA, during each program year, may be aggregated and considered a single structure for purposes of meeting the Low-to-Moderate Income Housing (LMH) a national objective. The grantee must maintain documentation that demonstrates at least 51 percent of the completed units were initially occupied by low- and moderate-income households. That data is then reported in the IDIS Consolidated Annual Performance and Evaluation Report (CAPER).

Cause: The City of Detroit did not check to be sure all the LMH data was entered in IDIS for NRSA #1 before submitting the 2016 CAPER.

Effect: Because the data was incomplete, the City self-reported that the Detroit 0% Home Repair Loans Program did not meet the LMH National Objective for NRSA #1.

Corrective Action: The finding is closed because the City entered the rest of the performance data for the NRSA#1 to indicate that the LMH national objective was met.

<u>Subrecipient/Community-Based Development Organization (CBDO) Management</u>

The purpose of this review was to determine the extent to which the City was adequately managing and monitoring subrecipient/CBDO performance. The regulations at 2 CFR 200.328 require the City to monitor the day-to-day operations of subrecipient activities for compliance with applicable Federal requirements as well as to assess performance goal achievements. Exhibit 3-16: *Guide for Review of Subrecipient/Community-Based Development Organization (CBDO) Management,* was used to monitor this area. Two Findings were identified in this program area.

<u>FINDING #5: For Motor City Match Program, the City of Detroit did not maintain sufficient oversight to ensure costs complied with a CDBG-eligible activity and the cost principles per the Uniform Administrative Requirements.</u>

Condition: As of July 13, 2018, the City of Detroit drew down a total of $8,286,714.53 for three Motor City Match activities reported in IDIS under Activity #8043, IDIS Activity #8223, and Activity #8505. The three IDIS activities were reported in IDIS under Eligible Activity Category: 18A - ED Direct Financial Assistance to For-Profits, which is tied to 24 CFR 570.203(b): *The provision of assistance to a private for-profit business*. The CDBG funds went to a subrecipient, the Economic Development Corporation of the City of Detroit (the subrecipient), to support Motor City Match Program activities.

The monitoring review was performed on $152,725.34 in 2016 CDBG funds drawn on May 4, 2017 on IDIS draw voucher #6036184 for IDIS Activity #8223 covering costs invoiced on Purchase Order #3004755, contract#2899173 for the Economic Development Corporation of the City of Detroit (EDC). The EDC invoice included costs from vender invoices and personnel costs for fifteen Detroit Economic Growth Corporation (DEGC) employees performing work during March 2017.

There were four deficiencies with the Uniform Administrative Requirements in 2 CFR Part 200 and the CDBG eligible activity regulation per 24 CFR 570.203(b) cited as follows:

1. The staffers worked on CDBG-eligible and non-CDBG eligible activities. However, per 2 CFR 200.430(i), records were not maintained to document 100% of the employees' time. They only documented the portion of their time spent on the CDBG-funded Motor City Match Program.

2. Overhead costs were recovered by charging a fee calculated using an amount of 18% of Motor City Program salary and fringe costs assigned to CDBG for the month. Grantees and their subrecipients may not assess fees to the CDBG program. CDBG reimbursement covers actual costs of carrying out a CDBG-eligible activity. An organization's costs such as overhead that cannot be directly attributed to specific activities or cost objectives, must comply with Part 200 indirect cost regulations to be eligible for Federal funding. For indirect overhead costs, it would have been more appropriate to use an approved indirect cost rate according to *Appendix IV to 2 CFR Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations.*

3. The same Fringe Rate of 28% was used across the board for all the subrecipients' employees regardless of varying factors including salary rate and position. Documentation was not made available for the fringe benefit costs to verify they were approximately the same across employee position groupings. Per 2 CFR 200.431(d), when the allocation method is used for Fringe benefits, "Separate allocations must be made to selective groupings of employees, unless the non-Federal entity demonstrates that costs in relationship to salaries and wages do not differ significantly for different groups of employees."

4. There was insufficient documentation per 2 CFR 200.403(g) to evidence compliance with 24 CFR 570.203(b), the provision of assistance to a private for-profit business and the necessary, reasonable, and allowable cost principles required by Subpart E of 2 CFR Part 200. In the March 2017 payment request that we reviewed, the costs were broken out by budget categories: Administration ($9,505.54), Project Assessment ($69,951.89), and Outreach and Engagement ($73,962.12) for a total of $153,419.55. Only about $20,000 of the costs were directly tied to assisting 10 businesses. They were included in the "Project Assessment" budget category. Most of the costs billed to CDBG were not distributed directly to a business. Therefore, it's not clear if the costs were necessary, reasonable, or allowable for the provision of assistance to a private for-profit business. Moreover, the costs billed under Administration and Outreach and Engagement appear to be CDBG-eligible costs covered under CDBG administration per 24 CFR 570.206 as opposed to costs directly related to assistance to a private for-profit business eligible under 24 CFR 570.203(b). Without adequate documentation, it's difficult to assess how the costs were CDBG-eligible and if they complied with the Cost Principles under Subpart E of 2 CFR Part 200 including cost allowability, cost reasonableness, and cost allocability. Since there was no distribution of most of the costs, it was not possible to determine if the costs were reasonable for the number of businesses being assisted.

Criteria: Per 24 CFR 570.502, grantees and subrecipients shall comply with 2 CFR part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.[i] All funds must satisfy a CDBG-eligible activity regulation. There were insufficient records to adequately support how the Motor City Match Program costs complied with the CDBG-eligible activity that the City reported in IDIS, which was 24 CFR 570.203(b) - the provision of assistance to a private for-profit business.

Cause: There were no policies and procedures for documenting costs in a way that evidenced compliance with an applicable CDBG eligible activity and the cost principles cited in the Uniform Administrative Requirements and cited in 24 CFR 570.203(b).

Effect: The intent of the Uniform Administrative Requirements is to guard against the risk of waste and misuse of Federal funds. By missing key compliance points under these requirements, the likelihood of waste and misuse increases, calling into question the integrity of the federally-funded program. Moreover, without identifying the appropriate CDBG-eligible activities and maintaining sufficient support for complying with the requirements, it becomes unclear if the costs were eligible for CDBG funds.

Corrective Actions: The City and its subrecipient need to complete the following:

1. The City needs to develop policies and procedures to guide the subrecipient on maintaining sufficient records to document compliance with an identified CDBG-eligible activity and 2 CFR Part 200 Uniform Administrative Guidelines including but not limited to personnel and fringe costs per 2 CFR Part 200.430-431, Cost Principles in Subpart E, and Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations.

2. The current subrecipient agreement needs to be amended so that the costs covered by CDBG comply with 2 CFR Part 200 Uniform Administrative Guidelines and eliminate using CDBG funds for the subrecipient's fees.

3. The City needs to work with the subrecipient to document that the past CDBG funds were used for costs that met an identified CDBG-eligible activity and complied with the personnel costs, fringe benefits, cost principles, and direct and indirect costs regulations per 2 CFR Part 200 as applicable.

4. The City needs to submit to HUD the records evidencing that the costs met an identified CDBG-eligible activity and met the requirements per 2 CFR Part 200 as applicable for the 2016 CDBG funds covered by the drawdown selected for review during the monitoring visit on IDIS draw voucher# 6036184 on IDIS Activity# 8223 on May 4, 2017 for $152,725.34.

5. For any portion of the funds that do not have sufficient evidence on meeting a CDBG eligible activity and the Uniform Administrative Guideline cost principles, the City must remit an amount up to the $8,286,714.53 drawn as of July 13, 2018 on IDIS Activities #8043, #8223, and #8505.

<u>FINDING #6: Written agreements do not include all the required provisions per 24 CFR 570.503 *Agreements with subrecipients*</u>

Condition: We reviewed three subrecipient contracts: (1) Economic Development Corporation (EDC) for the administration of the Motor City Match Program; (2) Local Initiatives Support Corporation (LISC) for the administration of the % Home Loan Program; and (3) United Community Housing Coalition (UCHC) for the administration of relocation benefits for the 40 Davenport project. Summary information related to each subrecipient written agreement is provided in this section.

<u>EDC</u>: (1) The statement of work does not correspond to the budget. The amended budget breaks down into three categories:

(a) outreach and engagement - $1,354,745;

(b) project assessment, feasibility and technical assistance - $5,550,000; and

(c) project administration fee - $345,255.

The Statement (Scope) of Work lists 4 areas:

(a) Attract new small businesses and real estate investments;

(b) Retain and expand existing small businesses;

(c) Improve the physical environment along commercial corridors; and

(d) Develop new tools to support business attraction, retention and expansion, and physical investments.

Finally, there is an additional note that states: "In addition, the EDC may engage in planning and capacity building activities to support the objectives of the activities described in Exhibit A." While the review of disbursements for March 2017 could be directly tied to the budget line items, the actual costs could not be tied to the Statement (Scope) of Work. Additionally, while the Statement of Work is written in sufficient detail in the agreement's Exhibit A, when compared to actual billing documentation, it does not allow the City to accurately monitor performance against the agreement as well as report on performance measurement progress.

(2) The type of data to be collected and maintained by the subrecipient was not specified in a way that allowed the appropriate accomplishment data to be entered into IDIS.

<u>LISC</u>: This open Finding was from the 2015 monitoring review. (1) The Statement (Scope) of Work does not correspond to the budget; and (2) the identification, reporting and correct use requirements of Program Income was not included. See below:

1. LISC had been collecting CDBG program income (PI) dollars since the receipt of the first loan repayment by a consumer. The City of Detroit was required to put receipts into IDIS for those CDBG PI funds, report the activities carried out with PI, and enter drawdown vouchers for the PI that was used. None of the CDBG PI data was entered into IDIS.

2. Whenever LISC used CDBG to repay its loans, it must maintain records to support the dollar amounts of CDBG used, the eligibility of the costs, and the disbursements.

3. It is a requirement that CDBG PI get used before drawing from the CDBG line of credit. When the City executed a drawdown in IDIS from its CDBG line of credit for the 0% Interest Home Repair Loan Program, the City did not maintain documentation to show that LISC had a $0 balance of CDBG PI.

UCHC: The written agreement contained several errors: (1) The total compensation was reflected as $243,000 while the budget added up to only $215,000; (2) There were erroneous references to the ESG Program included. The agreement did not include the type of data to be maintained to allow the City to correctly enter accomplishment data into IDIS.

Criteria: Subrecipient written agreements shall include the provisions, as applicable, contained at 24 CFR 570.503 to ensure compliance with Federal requirements and allow the grantee to effectively monitor performance under the agreement and report in IDIS accomplishment data. For the EDC agreement 24 CFR 570.503(b)(1) *Statement of work* and (2) *Records and reports* applied. For the LISC agreement 24 570.503(b)(1) *Statement of work*, and (3) *Program Income* applied. For the UCHC agreement 24 CFR 570.503(b)(2) *Records and reports* applied.

Cause: The City lacked sufficient checks and balances in place to ensure that written agreements contained all required language for federal contracts.

Effect: Improperly prepared written agreements may result in disallowed costs.

Corrective Actions: If the City wishes to avoid disallowed costs associated with the three written agreements, it is advised that the City re-visit the regulations cited above and complete the actions listed below.

(1) For the EDC contract, the City should revise the agreement so that the Statement (Scope) of Work is tied direct to the budgeted line items; and the specific data to be maintained and reported is clearly outlined.

(2) For the LISC written agreement, the City needs to revise the agreement to include procedures for obtaining program income information on a monthly basis and ensuring that information is entered timely into IDIS, and ensuring sufficient documentation is maintained by LISC to evidence the disbursements of CDBG PI on-hand prior to subsequent draws. Additionally, the Statement (Scope) of Work and use of PI need to be tied directly to the budgeted line items.

(3) For the UCHC written agreement, the City needs to correct the errors listed and specify the data to be maintained and reported.

(4) The City needs to revise its written policies and procedures to ensure that each of the required provisions are included and clearly explained in sufficient detail.

Overall Management Systems

The purpose of this review was to assess the City's overall management of the CDBG Program. Exhibit 3-17: *Guide for Review of Overall Management Systems,* was used for the basic review of program oversight activities. Please note that one fundamental principle of the monitoring process is that HUD is required to make findings when there is evidence that a statute, regulation or requirement has been violated. During the review process, two deficiencies were noted as it related to optional relocation benefits and construction management services. Both program areas represent deviations from the areas specified in the notification letter. There were two Findings and one Concern identified in this program area.

FINDING #7: The City does not have a residential anti-displacement and relocation assistance plan.

Condition: The City opted to provide optional relocation assistance to tenants being temporarily relocated from the 40 Davenport development. At that time, it was determined that the City did not have a current Residential anti-displacement plan or could no longer locate it. Therefore, it was necessary for City staff to prepare a stand-alone plan covering only optional temporary relocation assistance for the 40 Davenport project. Finally, the City is required to certify each year it has a plan in effect.

Criteria: 24 CFR 91.225(a) *Certifications* states; "(1) As part of its consolidated plan under 24 CFR 91, the recipient must certify that it has in effect and is following a residential anti-displacement and relocation assistance plan; and (2) A unit of general local government that develops its own plan must adopt and make it public."

Cause: The City does not have written policies and procedures for the provision of relocation assistance and the on-going training of development staff.

Effect: Per 24 CFR 91.500(b) *Standard of review*, the following are examples of consolidated plans that are substantially incomplete: … (3) A plan for which a certification is rejected by HUD as inaccurate, after HUD has inspected the evidence and provided due notice and opportunity to the jurisdiction for comment.

Corrective Action: The City is advised to familiarize itself with the requirements contained at the above noted regulations and prepare a new residential anti-displacement plan. The plan should spell out the types of permanent, temporary and optional relocation services to be made available to displaced persons and should include, at a minimum, the written installment payment process, and appeals process. The adopted plan should be made public. Finally, the City should also take steps to ensure that all relevant staff complete relocation training when it becomes available.

FINDING #8: The City violated Federal procurement requirements in securing construction management services.

Condition: In conducting a limited review of the Detroit 0% Home Repair Loans Program, it was noted that the City had contracted with GS Group to provide construction management services. It was determined that the GS Group's 2-year $1,050,000 contract expired on June 30, 2017 with a provision which allowed for an optional one-year renewal. The Total paid invoices since July 1, 2017 amounted to $405,210. A Concern was issued in the 2015 HUD Monitoring Report relative to the procurement of construction management services (See below).

2015 Concern #5

Inappropriate Procurement Method used for Construction Management Services **-** *The City issued an RFP for Construction Management services (RFP #15WN019) to seek qualified and experienced firms to provide construction management services for the 0% Interest Home Repair Loan Program. The RFP indicated the contract was to be awarded in accordance with the small purchase procurement method (the threshold is $150,000) and required the respondents to have a number of licenses through the State of Michigan and at least 5 years' experience. The small purchase method should be reserved for simple procurements and not used for professional services that require specialized skills or licenses*

Although the proposed procurement method was inappropriate as noted in the Concern, the RFP appeared to contain all the required elements of the competitive procurement process. However, (1) it was noted that the signed contract included a copy of the bid tabulation which showed the GS Group rating the highest, although the evaluation criteria did not match that which was included in the original RFP and (2) Per Detroit City Ordinance Sec. 18-5-21: "… City council approval of a contract or amendment shall not be deemed an approval of any renewal or extension sought to be entered into pursuant to such contract. Such renewals or extensions of contracts or the exercise of an option to renew or extend a contract shall require separate city council approval." City staff was unable to produce this documentation.

Criteria: Per 2 CFR 200.318(a): "(a) The Non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.

Cause: The City lacked sufficient policies and written procedures to ensure that their program was in compliance with all procurement requirements. HRD, who has oversight responsibilities over all CPD-funded programs, does not have management responsibilities over the other departments that are responsible for procurement and financial management.

Effect: Improperly procured contracts may result in disallowed costs.

Corrective Actions: It is recommended that the City develop a proposal for addressing the continuing systemic weaknesses in procurement of HUD CPD-funded activities. The City may want to consider embedding staff from the various departments in HRD to increase efficiency, improve communication, and strengthen management controls. Additionally, the City should revisit its internal procurement policies and procedures to avoid the repayment of any questioned costs. Finally, the City needs to:

1. Obtain a copy of the City Council approval of the renewal/extension of the GS Group contract.

2. The "renewal" is to be treated as a change order and a written cost analysis for the contract modification needs to be prepared and made a part of the file.

3. The written procurement policies and procedures need to be amended to include the procurement requirements of Part 200 and any relevant City ordinances.

4. Submit all of the above listed documents to the HUD CPD Detroit Field Office.

5. Or, in the alternative, the City may reimburse its CDBG Line of Credit (LOC) with non-Federal funds in the amount of $405,210.

Concern #1: The City continues to exhibit systemic weaknesses in its overall management of the CDBG Program.

Condition: Despite the City's efforts to improve management of the CDBG Program through reorganization with the Housing and Revitalization Department (HRD) (formerly the Planning and Development Department), the Office of Contracts and Procurement, the Office of Grants Management, and the Office of Grants Accounting, the City continues to demonstrate a lack of organizational capacity and coordination. Many of the tasks formerly undertaken by HRD were shifted to these other Offices. These tasks included contract execution, IDIS management and reporting, payment processing, Section 108 loan management and reporting, and financial monitoring. While it has been noted that the City has shown some overall grants management improvements, the City continues to miss regulatory requirements resulting in Findings. The Findings in this report were mostly due to information not being readily available, incomplete or incorrect.

Cause: In general, there is a lack of coordination between HRD and the other City of Detroit Offices carrying out the CDBG Program. The organizational chart is unclear, and the responsibilities and work flows are not delineated. When a program is created there is not adequate communication or documentation of processes related to records that need to be maintained to accurately account for the use of the grant dollars, evidence regulatory compliance, make the records easily accessible to HUD for review, correctly structure and report the data required in IDIS, and meet critical deadlines. When a program is being carried out, the City's internal review process is insufficient to self-identify when the requirements are not being met and therefore critical corrections are not being made.

Effect: The disjointed overall management of the CDBG program could result in decreased program delivery efficiency and continued HUD compliance issues.

Recommended Corrective Actions: The City should develop written policies and procedures that clearly identifies the specific roles and responsibilities of each involved department (as it relates to the HUD-funded programs), the assigned point person(s), and a specific outline to meet the time-sensitive goals which correspond to the Federal guidelines and time-sensitive deadlines. The plan should discuss training needs and explore alternative staffing considerations. The plan should address how the other involved departments will work collaboratively with HRD in the grants administration process.

Section 108

The purpose of this review was to assess the City's compliance with the HUD requirements for reporting and management of the Section 108 Loans, however, the scope of our review did not include the Section 108 Loan funded projects. Monitoring of this area was conducted using Exhibit 5-1, Guide for Review of Section 108 Loan Guarantees and BEDI/EDI Grants. One finding was identified in this program area.

FINDING #9: The City did not sufficiently administer the Section 108 Loan Contract Requirements.

Condition: According to HUD records, Detroit has eight existing Section 108 loans and 15 that are paid in full. The approval year for the first loan was 1981 and the most recent approval year was 2006. All the loans were approved before the time when HUD set-up the loans in IDIS for draw. Currently, the City receipts and draws down the Section 108 Loan Program Income funds in IDIS.

The problems were:

1) the City did not disburse all the Section 108 funds that were drawn down;

2) the undisbursed funds in the Guaranteed Loan Accounts and Guaranteed Loan Investment Accounts were not transferred to the Loan Repayment Account per section II, 1.a. of the Section 108 Contracts for Loan Guarantee Assistance;

3) the Loan Repayment Account and Loan Repayment Investment Accounts were not established and did not receive deposits per section II, 1.a. and Paragraphs 1 and 6 of the Section 108 Contracts;

4) written statements showing the balances of funds in all Guaranteed Loan Funds Accounts and Loan Repayment Accounts and the withdrawals from such accounts during the preceding calendar month were not submitted to HUD per Paragraphs 1 and 6 of the Section 108 Contracts; and

5) written statements identifying balances, investments and assignments in the Guaranteed Loan Funds Investment Accounts and the Loan Repayment Investment Accounts were not submitted to HUD per Paragraphs 1 and 6 of the Section 108 Contracts.

Criteria: HUD used a standard template Contract for Loan Guarantee Assistance Under Section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. Section 5308 that was executed by HUD and the City of Detroit for the section 108 loans granted by HUD. Under Part II, Subparagraph 1.a., all the funds in the Guaranteed Loan Funds Account or the Guaranteed Loan Funds Investment Account must be withdrawn and disbursed by the Borrower for approved activities by a certain date. Any remaining funds needed to be transferred to a Loan Repayment Account established pursuant paragraph 6 of the Section 108 Contract. For example, the January 4, 2008 Section 108 Contract for the Woodward Garden Block Development Project, loan #B-05-MC-26-0006, required all the funds to be disbursed by June 30, 2009 and whatever wasn’t disbursed needed to be transferred to a Loan Repayment Account. Under Part II, Subparagraph 1.b., by the fifteenth day of each month a written statement showing the balance of funds in the Guaranteed Loan Funds Account and the withdrawals from such account during the preceding calendar month, and a statement identifying the obligations and their assignments in the Guaranteed Loan Funds Account had to be submitted to HUD. Part II, Paragraph 6 stated the requirements of a designated Loan Repayment Account and the required monthly written statements that needed to be provided to HUD.

Cause: The City did not establish management of the Section 108 loans to comply with the requirements of the executed Section 108 Loan Contracts. During the monitoring review when records were requested, there was a disconnect between the Housing and Revitalization Department, OCFO - Office of the Treasury, and the Office of the Deputy CFO/Controller Grants Accounting. The responsibilities seemed to be dispersed among the different divisions without establishing sufficient internal controls to ensure compliance with contractual obligations, including financial management, programmatic use of the funds, and reporting and recordkeeping for the complete Section 108 Loan portfolio. The City’s lack of organization and insufficient internal controls resulted in substantial noncompliance with key contractual requirements.

Effect: By not providing monthly written statements to HUD on all funds related to the Section 108 loan funds, HUD is not able to fulfill its oversight responsibilities with respect to the City’s Section 108 loans. By not transferring unused funds to the Loan Repayment Account, there is an increased risk that the City drew down CDBG funds from the line of credit before using locally available funds. By not establishing and maintaining the Loan Repayment Account and Loan Repayment Investment Account, there is a greater risk that HUD's security will not be properly accounted for and safeguarded. By not establishing and maintaining the Loan Repayment Investment Account there is a greater risk that funds will not be invested in secure assets.

Corrective Action: The City needs to establish policies and procedures for managing the Section 108 loans according to the terms of the executed Contracts. There needs to be an organization chart that identifies the responsibilities by department and employee position. The City needs to provide evidence to HUD that the contractual requirements have been and will be met for all the City's outstanding Section 108 loans that have local balances. The required written statements need to be submitted to HUD by the fifteenth of the month per the Contract requirements.

-END OF REPORT-

[i] Requirements for documenting personnel costs are found at 2 CFR 200.430(i). Requirements for documenting fringe benefits are found at 2 CFR 200.431. The requirements for allocating costs are at 2 CFR 200.405. The requirements for documenting indirect costs are found in Appendix IV to 2 CFR Part 200—*Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations*. The requirements for documenting compliance with cost principles are found in 2 CFR Subpart E—*Cost Principles*.

U.S. Department of Housing and Urban Development

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May 1, 2019

Mr. Donald Rencher, Director
Housing & Revitalization Department
City of Detroit
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 908
Detroit, MI 48226

Dear Mr. Rencher:

SUBJECT: 2018 Monitoring Response
Community Development Block Grant (CDBG)
Grant Numbers B-16-MC-26-0006 and B-17-MC-26-0006

The purpose of this letter is to update the status of HUD's 2018 CDBG Monitoring Report for the City of Detroit (City) dated September 24, 2018 in consideration of the City's responses emailed on November 26, 2018, December 11, 2018, and December 18, 2018. The 2018 CDBG Monitoring Report contained nine findings of which three were related to the Motor City Match Program carried out by the City's CDBG subrecipient, the Economic Development Corporation of the City of Detroit (Subrecipient). This letter addresses the City's responses to the Motor City Match Program Findings #1, #2, and #5. A subsequent letter from HUD will address the balance of the findings. None of the three Motor City Match findings are closed. An extension is granted for the City to respond to the open Findings #1, #2, and #5 thirty days from receipt of this letter.

The records provided to this office did not sufficiently evidence that the CDBG funds used for the Motor City Match Program met a national objective and eligible activity. In consultation with the Office of Block Grant Assistance (OBGA) at HUD's Headquarters and in accordance with 24 CFR Part 570.910(b)(4), the City is advised to suspend the use of CDBG funds for the Motor City Match Program until such time that there are sufficient records to evidence regulatory compliance and the corrective actions for Findings #1, #2, and #5 are completed. Details of the Findings and Corrective Actions are contained in the attached report.

If you have any questions or would like to discuss the enclosed report's contents or conclusions, please contact Ms. Kathy Bagley, CPD Representative at 313-234-7321 or kathy.f.bagley@hud.gov or Ms. Cynthia Vails, Senior Financial Analyst at 313-234-7335 or cynthia.c.vails@hud.gov.

Sincerely,

Keith E. Hernandez, AICP
Director, Office of Community Planning and Development

2018 Monitoring Response Report
Community Development Block Grant (CDBG)
Grant Numbers B-16-MC-26-0006 and B-17-MC-26-0006

FINDING #1, contained in HUD's 2018 CDBG Monitoring Report for the City of Detroit (City) dated September 24, 2018 stated there were insufficient records to support that the Motor City Match Program activities carried out by the City of Detroit's CDBG subrecipient, the Economic Development Corporation of the City of Detroit (Subrecipient), met the Low- to-Moderate Income Area (LMA) national objective. Also, there was erroneous reporting in the Integrated Disbursement and Information System (IDIS). The Finding remains open. The Finding contained six corrective actions that were not fully addressed.

Finding #1, Corrective Action #1: Recordkeeping Policies and Procedures for Meeting a National Objective

The first Corrective Action stated that the City needed to develop policies and procedures to guide the Subrecipient on maintaining enough records to evidence that each activity funded by CDBG met a national objective. When using CDBG for Special Economic Development and Microenterprise activities, it is important to account for the amount of CDBG dollars used to assist each entity. Compliance with a national objective for each dollar amount is then evidenced by the records maintained for each assisted entity.

The City's response did not fully address Corrective Action #1. In the City's response, the DRAFT *Housing & Revitalization Department Policy Directive* did not contain policies and procedures to sufficiently and correctly evidence that the CDBG funds used to assist each entity met a CDBG national objective. To start, in the context of using CDBG for economic development, the "Section III Policy Statement" of the *H&RD Policy Directive* incorrectly stated that a national objective did not have to be met because Neighborhood Revitalization Strategy Areas (NRSAs) are presumed to be Low-to-Moderate Areas (LMAs). Aside from administration and planning activities, all activities funded by CDBG must meet a national objective. The IDIS CDBG Matrix Code/National Objective Table in Attachment A is useful for determining which National Objectives are eligible with each CDBG eligible activity. For example, if the eligible activity is Microenterprise Assistance [24 CFR Part 570.201(o), IDIS Matrix Code 18c], then the activity must meet one of the following national objectives:

- LMA - Low- and Moderate-income (Low/Mod) Area Benefit [570.208(a)(1)];
- LMASA – Low/Mod Area Benefit NRSA [570.208(d)(5)(i)];
- LMC – Low/Mod Limited Clientele [570.208(a)(2)];
- LMCMC – Low/Mod Limited Clientele Microenterprise Development [570.208(a)(2)(iii);
- LMJ – Low/Mod Job Creation or Retention [570.208(a)(4)];
- LMJP – Low/Mod Job Creation or Retention, Location Based [570.208(a)(4)(iv)(B)]; and
- SBA – Slum and Blight Area [570.208(b)(1)].

If the activity is Economic Development: Technical Assistance [24 CFR Part 570.203(c), IDIS Matrix Code 18B], then the activity must meet one of the following national objectives:

- LMA - Low- and Moderate-income (Low/Mod) Area Benefit [570.208(a)(1)];
- LMASA – Low/Mod Area Benefit NRSA [570.208(d)(5)(i)];

- LMJ – Low/Mod Job Creation or Retention [570.208(a)(4)];
- LMJP – Low/Mod Job Creation or Retention, Location Based [570.208(a)(4)(iv)(B); and
- SBA – Slum and Blight Area [570.208(b)(1)]

Therefore, the City's "Section III Policy Statement" needs to be revised to explain which records are required to correctly and sufficiently evidence compliance with a national objective for each assisted entity. It might be helpful to create a documentation checklist that is tailored to the national objective that was met by each CDBG-assisted entity. For example, in a case where CDBG was used to provide technical assistance directly to a for-profit business located in a Neighborhood Revitalization Strategy Area (NRSA), the procedure could be to require the Subrecipient to maintain records for compliance with the CDBG Low-to-Moderate Income Area (LMA) NRSA national objective by evidencing the location of the business in a NRSA and the full-time jobs that it created or maintained. According to the Notice CPD-16-16, *Neighborhood Revitalization Strategy Areas (NRSAs) in the Community Development Block Grant (CDBG) Entitlement Program*, on page 3, an LMA national objective [24 CFR 570.208(a)(1)(vii) and (d)(5)(i)] may be met when the job creation/retention activities are carried out. Another example, a microenterprise not located in a NRSA, could meet the LMA national objective provided there are records with sufficient documentation to evidence:

- The boundaries of the microenterprise's service area;
- That the microenterprise's services benefit all the residents in the service area;
- That the service area is primarily residential; and
- The population data for the Census Tract/Block Groups within the services area reports over 51 percent of the population is low-to-moderate income.

To help identify the service area boundaries, procedures could be developed to create standard service area sizes for specific types/size of businesses (e.g. dry cleaners, 40,000 sf grocery store vs 10,000 sf grocery store, day care center, etc.).

Finding #1, Corrective Action #2: IDIS Set-up and Reporting Procedures for the Motor City Match Program

The second Corrective Action on Finding #1 was to develop procedures for how the Motor City Match activities will be set-up and reported accurately in IDIS. The City's response did not fully address this corrective action. The City provided *The Housing & Revitalization Department NRSA Procedures*, which were insufficient to ensure accurate reporting in IDIS. Instructions that were missing included how to identify which IDIS eligible activity matrix code and national objective code to report for each assisted entity. This is essential to properly setting up an activity in IDIS. There were insufficient procedures to instruct how each assisted entity's CDBG costs should be drawn down on its respective IDIS activity number. The amount drawn on an IDIS activity should reconcile to the total CDBG costs for the assisted entity set-up on that IDIS activity. Likewise, the accomplishment data reported on an IDIS activity should reconcile to the total data reported for the assisted entity set-up on that IDIS activity. To ensure accurate reporting in the Consolidated Annual Performance and Evaluation Report (CAPER), there should be internal deadlines for when the staff must enter the data before the CAPER is made available for review by the public and submitted to HUD.

Finding #1, Corrective Action #3: Documentation that each CDBG-assisted Activity Met a National Objective

The City's response was insufficient because it failed to do the following: identify every CDBG-assisted entity touched by the CDBG funded assistance, confirm the amount of CDBG used to assist each of those entities, confirm the national objective classification met by each of those entities and then confirm what documents were on file for each entity to support that the outcome of its CDBG assistance met the intended national objective.

Finding #1, Corrective Action #4: Correct the Reporting Errors in IDIS Activities #8043 and #8223

The City's response asserted that the corrections were made in IDIS for Activities #8043 and #8223. The City's response did not fully address this corrective action. As of February 27, 2019, these two IDIS activities did not report the correct national objective met by every business that received CDBG assistance covered by these activities. No changes were made from the time of the monitoring visit. The City needs to review the records to ascertain which of the assisted businesses met a CDBG eligible activity and national objective; then, activities need to be set-up in IDIS for each of the eligible business with the correct eligible activity and national objective matrix codes. Next, the draw vouchers on IDIS Activities #8043 and #8223 need to be amended to transfer the drawn funds used to assist each of the eligible businesses to its respective IDIS activity. It is recommended that the City first review the eligible businesses with the HUD Detroit Field Office before making modifications in IDIS.

During the monitoring visit, it was observed that IDIS Activity #8223 was set-up with matrix code 18A indicating CDBG dollars were used to provide direct financial assistance to a for-profit business, which was contrary to the City's response containing documents that stated CDBG was used to assist microenterprises. Also, it was set up with the LMA national objective, which meant services provided by the businesses were targeted to reach all the residents in a low-to-moderate income area that was primarily residential. The City erroneously reported that the low-to-moderate income service area was all areas contained in the boundaries of the City of Detroit. Because Detroit is a large geographic area and not all the area is primarily residential, it was not an appropriate LMA service area to report in IDIS.

Furthermore, the documentation provided by the City did not sufficiently evidence that all the assisted businesses were up and running and met the LMA national objective. For example, the documentation in the City's response for Sure Shot Logistics, which was one of the entities assisted with the CDBG drawn down on Activity #8223, did not sufficiently evidence that it met a national objective. By reporting the business proposed to provide third party logistics and freight brokerage services, the documentation did not evidence the kind of service that benefits the residents and therefore did not meet the LMA national objective. In another example, the documentation provided for the Natural Market, covered in Activity #8223, contained a memorandum dated November 13, 2018 that stated the business lost its space, which calls into question whether a national objective was met.

There were similar problems for Activity #8043. In the accomplishment data, the City reported that 378 new businesses were assisted in the 2016 program year with each one providing services that targeted all the residents in 13 census tracts meeting the low-to-moderate income area (LMA) national objective. To the contrary, according to the documentation observed during the monitoring, not every business was functioning and not every business provided services targeted to the residents in those identified areas. Please note that it is possible that the businesses may have met the LMA national objective if they were located in a NRSA and retained or created full-time jobs but that is not what was reported in IDIS.

Finding #1, Corrective Action #5: Evidence that the CDBG Used to Assist Fourteen Entities Met a National Objective on IDIS draw voucher #6036184, IDIS Activity #8223

During the monitoring visit, fourteen entities were randomly selected from the list of entities documented in the City's support for IDIS drawdown Voucher #6036184 created on April 28, 2017 to draw $152,725.34 in 2016 CDBG funds used for direct assistance to for-profit businesses reported by the City in IDIS Activity #8223. The City's reply to HUD tried to update the City's supporting documentation on file for the IDIS drawdown voucher by stating that five of the businesses didn't receive assistance funded by CDBG. The City's response stated that the costs for assisting those businesses were covered by private philanthropic donors. The City's response did not confirm if these five businesses were included by mistake in the original CDBG drawdown documentation or if the funds from the private philanthropic donors replaced the CDBG funds that were drawn down to cover the technical assistance costs to those five businesses. The City needs to go back and review the documentation for each drawdown voucher to determine which entities actually received assistance funded by the CDBG dollars drawn in the voucher.

In summary, the City's response did not fully address this corrective action because it did not evidence how the assisted entities met a CDBG national objective. The City's response stated that the fourteen identified businesses met the CDBG LMA national objective simply by proposing job creation efforts in a NRSA. First, LMA NRSA (LMASA) is not what was reported as the national objective in IDIS Activity #8223. Second, meeting a national objective is determined by what happens and not by what is proposed. When CDBG funds are drawn down by the City, the City must ensure that the activities funded by those dollars will meet a national objective. Significant time had passed since the draws were made and the City reported in IDIS that 375 businesses were assisted and so the expectation was that the documentation provided in the City's responses would evidence the national objectives that were met rather than what was proposed. For the fourteen businesses that were sampled, the records were not enough per 24 CFR Part 570.506(b) to show how a national objective was met.

We recommend that the City submit to HUD the list of the sampled fourteen businesses with the amount of CDBG used to assist each entity, the correct national objective regulatory cited next to each one along with a one-sentence explanation on how the national objective was met. Then provide the documentation per 24 CFR 570.506(b) to evidence the amounts of CDBG used for each entity and how each entity met the identified national objective. For example, Company X met the NRSA LMA National Objective per 24 CFR Part 570.208(d)(5)(i) and 24 CFR Part 570.208(a)(1)(vii) by providing one job to a resident of NRSA#1. Another example if there is a non-NRSA LMA assisted entity, Company Y met the LMA National Objective per 24 CFR Part 570.208(a)(1)(i) by assisting a restaurant that serves meals affordable to all the residents of the LMA neighborhoods located in CT 123456, BG 001 and BG 002 that are primarily residential with LMA percentages of 53% and 56% respectively.

Additionally, after the City reviews the drawdown documentation for IDIS Voucher #6036184, the City needs to provide HUD with accurate documentation that verifies how the

$152,725.34 breaks out to the amount of CDBG-funded assistance provided to each assisted entity. The City's response also needs to address the entities that were included in the CDBG drawdown documentation but ended up not receiving any of the assistance that was funded by those CDBG dollars.

Finding #1, Corrective Action #6: Potential Remittance

For any portion of CDBG funds without sufficient evidence of meeting a CDBG National Objective, the City must remit an amount up to the $7,497,896.49 drawn as of July 13, 2018 on IDIS Activities #8043 and #8223. In addition, any costs that were initially funded by CDBG and then funded by private dollars must be remitted. Closure on this corrective action is pending the outcome of the City's full review of the CDBG funds drawn on IDIS Activity #8043 and #8223 and pending the outcomes of the other Corrective Actions covered by Finding #1.

FINDING #2, which stated there were insufficient records to evidence meeting the Economic Development Underwriting and Public Benefit Standard requirements for the Motor City Match Program remains open. The Finding contained five Corrective Actions that were not fully executed.

Finding #2, Corrective Action #1: Policies and Procedures to Evidence the Correct CDBG Eligible Activity and Applicable Underwriting and Public Benefit Standards

The City's CDBG documentation for the Motor City Match Program did not show how the costs were broken out by eligible activity. The documentation included records for staffing costs, consultants' costs, and legal costs without identifying how much of that CDBG-funded assistance broke out to each CDBG-eligible activity. There was a list of all the entities participating in the Motor City Match Program but no proper cost allocation on how the CDBG-funded staff time (consulting services, legal assistance, etc.) tied directly to each one of those entities. The City's response did not provide policies and procedures to correct this problem.

Without the proper foundation of recordkeeping procedures for each assisted business to evidence the correct CDBG eligible activity and national objective and for assigning the costs for the assistance to each of business, the City's procedures for implementing and documenting the applicable underwriting and public benefit standards cannot be properly carried out. For example, there were insufficient procedures for determining if the entity met the definition of microenterprise [per 24 CFR Part 570.201(o) and having no more than five employees per section 102(a)(22) of the Housing and Community Development Act of 1974, as amended] in order for the CDBG funded assistance to be excluded from the public benefit standards. For the CDBG funds that were used to assist for-profit businesses covered under 24 CFR Part 570.203, which were not planned to be microenterprises, the proposed procedures did not explain how to evaluate and select businesses for assistance funded by CDBG in accordance with Appendix A to 24 CFR 570 - Guidelines and Objectives for Evaluating Project Costs and Financial Requirements pursuant to section 105(a)(17) of the Act (P.L. 113-235, Consolidated and Further Continuing Appropriations Act, 2015, Division K, Title II, Community Development Fund and subsequent annual Appropriations Acts).

In summary, the City did not develop procedures to accurately define and document which CDBG eligible activity each assisted business would meet. Furthermore, the City did not develop a method for budgeting and allocating the costs of providing technical assistance to each business. Lastly, there were no procedures to determine when the Appendix A underwriting and 24 CFR 570.209 public benefit requirements were applicable and when they were applicable, there was no checklist developed to help ensure they were carried out and properly documented.

Finding #2, Corrective Action #2: Document that Each CDBG-assisted Activity Met the Guidelines for Evaluating and Selecting Economic Development Projects

The City's responses did not provide enough support to show how each CDBG-assisted activity met the guidelines for evaluating and selecting economic development projects per 24 CFR 570.209 and Appendix A to 24 CFR 570 as applicable. The documentation included a table listing businesses that were classified as microenterprises and so the City represented that the guidelines for evaluating and selecting economic development projects didn't apply to them, but some of the individual businesses that were listed were not microenterprises. For example, on the "Motor City Match – CDBG Funded Business Plan, Space, and Design Tract Individual Public Benefit Test for Program Year Time Frame (07/01/2016 to 6/30/2017)" table that the City submitted in response to the monitoring, listed Sure Shot Logistics as a microenterprise but the Sure Shot Logistics' Motor City Match proposal stated that the goal was to provide 10 to 40 jobs. LCG Foods, Inc. doing business as Louisiana Creole Gumbo was listed on the table as a microenterprise, but its website, detroitgumbo.com, said it has two locations in Detroit, one with 22 full time employees and one with 15 full time employees. They do not fit the definition of microenterprise and therefore there should have been procedures for documenting that the guidelines for evaluating and selecting economic development projects per 24 CFR 570.209 and Appendix A to 24 CFR 570 were implemented.

The City needs to submit a list of the Motor City Match CDBG-assisted entities assisted to date that indicates the correct CDBG eligible activity for each one. Then HUD will randomly pick five of the for-profit businesses that received direct assistance per the Special Economic Development under 24 CFR Part 570.203. The City will submit the documentation to support carrying out the guidelines for evaluating and selecting economic development projects according to the regulations at 24 CFR 570.209 and the underwriting requirements at Appendix A to 24 CFR 570.

Finding #2, Corrective Action #3: Amend IDIS Activities #8043, #8223 and #8505 to Reflect Reclassification of Motor City Match Activities

The City's response did not include amending IDIS activities #8043, #8223, and #8505 to reflect the corrected CDBG eligible activities and CDBG national objectives. While the documentation in the City's response indicated that some of the CDBG-funded assistance was provided to microenterprises and LMA NRSA activities, that was not reflected in the IDIS setup codes for IDIS Activities #8043, #8223 and #8505. Activity #8505 reported that all CDBG funds drawn on this activity were designated for activities in NSRA#5. The City needed to verify this. In summary, the City provided inaccurate reporting in IDIS on the use of the CDBG funds for the Motor City Match Program. Once the City reviews the records and determines which costs were CDBG-eligible, the City should contact the Detroit HUD CPD Field Office and seek guidance on setting up correct IDIS activities and amending the draw vouchers to those activities.

Finding #2, Corrective Action #4: Documents on Underwriting and Public Benefit Requirements per 24 CFR 570.209 and Appendix A for the Fourteen Selected Businesses

The City's response did not contain records evidencing that the CDBG assistance met the underwriting and public benefit requirements per 24 CFR 570.209 and Appendix A as applicable for the fourteen businesses selected for review during the monitoring visit, on IDIS draw voucher #6036184 for IDIS Activity #8223. The City submitted copies of their Motor City Match applications but did not provide records for each business on the correctly assessed CDBG-eligible activity classification, the documentation evidencing implementation of the guidelines for evaluating and selecting economic development projects per 24 CFR 570.209 and Appendix A to 24 CFR 570 as applicable, and verifications of the applicable public benefit requirements that were met after the assistance was provided. The City's response indicated that five of the fourteen businesses that were selected for review from IDIS drawdown voucher #6036184 for IDIS Activity #8223, weren't assisted wit/h CDBG funds. If assisted businesses were subsequently taken out of the program, then the CDBG funds used to assist those businesses needs to be remitted to HUD.

Finding #2, Corrective Action #5: Potential Remittance

For any portion of the drawn CDBG funds that does not have sufficient evidence of meeting the Public Benefit Standard requirements and the Underwriting requirements when applicable, the City must remit an amount up to the $8,286,714.53 that was drawn as of July 13, 2018 for IDIS Activity numbers 8043, 8223, and 8505. Also, any amount of CDBG funds used for costs that were later funded by private dollars must be remitted to HUD. No immediate response is required to this corrective action until HUD has reviewed the other information requested. Closure on this corrective action is pending the outcome of the City's full review of the CDBG funds drawn on IDIS Activity numbers 8043, 8223, and 8505 and the outcomes of the other Corrective Actions covered by Finding #2.

FINDING #5, which stated there was insufficient oversight to ensure Motor City Match CDBG costs complied with a CDBG-eligible activity and the cost principles per the Uniform Administrative Requirements remains open. The Finding contained five Corrective Actions that were not all fully carried out.

Finding #5, Corrective Action #1: Recordkeeping Policies and Procedures to Ensure CDBG Eligibility and Compliance with Uniform Administrative Guidelines

The first Corrective Action stated that the City needed to develop policies and procedures to guide the subrecipient on maintaining sufficient records to document compliance with an identified CDBG-eligible activity and 2 CFR Part 200 Uniform Administrative Guidelines including but not limited to personnel and fringe costs per 2 CFR Part 200.430-431, Cost Principles in Subpart E, and Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations. In response, the City developed the "City of Detroit Activity and Invoicing Checklist." The checklist missed the mark by not requiring the subrecipient to identify the CDBG-eligible activity by regulation citation for each entity, to allocate the costs to each activity, and then document compliance with the Uniform Administrative Guidelines. For example, for a business that received technical assistance funded by CDBG, the record should start by stating that per 24 CFR Part 570.203(b), which allows CDBG to be used for the provision of technical assistance to a private for-profit business, Company X received $x of CDBG-funded assistance. Then there should be records documenting the costs of the technical assistance for that business, which can then be used to verify compliance with the 2 CFR Part 200.

The City needs to submit policies and procedures for the subrecipient to document compliance with 2 CFR Part 200 and they should include but not be limited to maintaining records for meeting Financial Management, Cost Principles, Procurement, and Conflict of Interest requirements. Guidance to help develop policies and procedure in these areas can be found in the *HUD Integrity Bulletins* found on the HUD Exchange at https://www.hudexchange.info/resource/5065/hud-integrity-bulletins/.

Finding #5, Corrective Action #2: Amend or Revise the Subrecipient Agreement

The subrecipient agreement needed to be amended so that the costs covered by CDBG comply with 2 CFR Part 200 Uniform Administrative Guidelines and eliminated using CDBG funds for the subrecipient's fees. According to the response, the Amendment to the subrecipient agreement read, "DEGC Internal Counsel - Billing Rate: Hourly rate set forth in EDC/DEGC annual services contract; $200/hour for the Subrecipient's general counsel and $175 for any other internal counsel." It was not altogether clear if the City was requiring the Subrecipient to comply with 2 CFR Part 200 when using CDBG to reimburse for its legal expenses. A flat rate for outside counsel rate can be eligible so long as there is documented compliance with 2 CFR Part 200.459 for professional service contract, a cost analysis was performed for reasonableness, the contract was procured according to applicable Federal regulations, and there are invoices for the costs. If CDBG was used for the Subrecipient's personnel costs, then the Standards for Documentation of Personnel Expenses must be met per 2 CFR Part 200.430(i) and costs for compensation of fringe benefits must be documented to comply with 2 CFR Part 200.431.

The Amendment to the subrecipient agreement also read, "DEGC Staff – Billing Rate: Hourly rates for individual employees using the sum of (employee salary/1,950)* 28% fringe rate) * 18% overhead as calculated using an approved indirect cost rate or the de minimis rate." Again, it was not altogether clear if the City was requiring the Subrecipient to comply with 2 CFR Part 200 when using CDBG for indirect costs, direct personnel costs, or direct fringe benefits. No regulatory citations were provided. Per 2 CFR Part 200.412, "it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards." The City's Amendment language was confusing because it did not delineate if the personnel costs were indirect or direct or if some employees' costs were direct while others were not. Furthering the confusion, the Amendment identified an 18% "overhead" rate which might insinuate a negotiated indirect cost rate, which is permitted, or a fee, which is not permitted, or a de minimis indirect cost rate, which the regulations state can only be 10% of modified total direct costs (MTDC). It was not clear which regulations at 2 CFR Part 200 were being invoked.

Each of the staffer's costs need to be classified as either direct costs requiring support per 2 CFR Part 200.430(i) or indirect costs that go into the indirect cost pool to be recovered according to either a negotiated indirect cost rate or the de minimis rate of 10% of modified total direct costs (MTDC). For indirect costs per 2 CFR Part 200.331(a)(1)(xiii), the rate must be identified in the subrecipient agreement. If no such rate is identified, then per 2 CFR Part 200.414(f) the subrecipient agreement may identify a de minimis rate of 10% of MTDCs so long as the Subrecipient has never received a negotiated indirect cost rate.

Finding #5, Corrective Action #3: Document that all CDBG-Funded Employees Maintain the Same Level of Fringe Benefits

There was insufficient documentation to show that all employees funded by CDBG have the exact same fringe benefits to support an across the board Fringe Rate of 28%. Please submit documentation on the fringe benefits approved for all the CDBG-funded employees.

Finding #5, Corrective Action #4: Compliance with a CDBG Eligible Activity Regulation and the 2 CFR Part 200 Regulations for Costs Funded by CDBG on IDIS draw voucher# 6036184 on IDIS Activity# 8223 on May 4, 2017 for $152,725.34

The Corrective Action stated that there needs to be documentation to evidence that the costs met an identified CDBG eligible activity and met the requirements per 2 CFR Part 200 as applicable for the 2016 CDBG funds covered by the drawdown selected for review during the monitoring visit on IDIS draw voucher# 6036184 on IDIS Activity# 8223 on May 4, 2017 for $152,725.34. The response stated that documentation evidenced that the costs attributed to the CDBG-assisted activities were eligible costs and complied with 2 CFR Part 200. Unfortunately, the City's response did not contain sufficient documentation to evidence these assertions.

For example, the employee with the initials "AA" documented 135 hours in March 2017 for performing site visits, financial analysis, and a deal making session. The documentation provided no classification on these costs as being direct assistance to a specific microenterprise [CDBG eligible activity per 24 CFR Part 570.201(o)] or to a specific for-profit business [CDBG eligible activity per 24 CFR Part 570.203(b)]. Without naming the microenterprise or for-profit business that was assisted by employee, the activity more resembled a public service [CDBG eligible activity per 24 CFR Part 570.201(e)] or administration (CDBG eligible activity per 24 CFR Part 570.206). Furthermore, the timesheet that was included in the drawdown documentation only identified the time spent on the Motor City Match Program. Because the timesheet did not cover all the employees' hours for federally assisted and non-federally assisted activities compensated by the subrecipient, the timesheet did not satisfy 2 CFR Part 200.430(i), *Standards for Documentation of Personnel Expenses*. The City's response did not correct for that. It is important to verify all the time of the employee and document that the Federal funds and non-Federal funds were properly allocated to cover the appropriate hours. A timesheet with the complete allocation of hours by activity is important to evidence consistent treatment of the Federally-assisted time and the non-Federally assisted time.

Another example was the Invoice #10778 submitted on March 20, 2017 by Mort Crim Communications, Inc for $5,900 to cover a radio spot and 1,000 flyers. The expenses looked more like indirect activity delivery costs (ADCs) or administration costs. The City's response did not address this. The costs should have been reclassified and $5,900 of the IDIS draw amount modified to a CDBG administration activity or the $5,900 remitted to HUD to the City's CDBG line of credit and then a subsequent draw made on the IDIS activities according to the proper calculation and distribution of indirect ADCs. There was no evidence provided in the response to demonstrate compliance with 2 CFR Part 200, including but not limited to §200.461 *Publication and printing costs*, §200.318 *General procurement standards* and Subpart E *Cost Principles*.

Finding #5, Corrective Action #5: Potential Remittance

For any portion of the CDBG funds that were drawn down that do not have sufficient evidence of meeting a CDBG eligible activity and the Uniform Administrative Guideline cost principles, the City must remit an amount up to the $8,286,714.53 that was drawn as of July 13, 2018 for IDIS Activity numbers 8043, 8223, and 8505. Also, any amount of CDBG funds used for costs that were later funded by private dollars must be remitted to HUD. No immediate response is required to this corrective action until HUD has reviewed the other information requested. Closure on this corrective action is pending the outcome of the City's full review of the CDBG funds drawn on IDIS Activity numbers 8043, 8223, and 8505 and the outcomes of the other Corrective Actions covered by Finding #5.

ATTACHMENT A
IDIS CDBG Matrix Code/National Objective Table

Matrix Code Key		National Objective Codes (**N** = Not Allowed)														
Code	Eligible Activity	LMA	LMAFI	LMASA	LMC	LMCMC	LMCSV	LMH	LMHSP	LMJ	LMJFI	LMJP	SBA	SBS	SBR	URG
01	Acquisition of Property - 570.201(a)					N	N				N					
02	Disposition - 570.201(b)					N	N				N			N		
03A	Senior Centers	N				N	N	N	N							
03B	Facility for Persons with Disabilities	N				N	N	N	N							
03C	Homeless Facilities (not operating costs)	N				N	N	N	N							
03D	Youth Centers	N				N	N	N	N							
03E	Neighborhood Facilities					N	N	N	N							
03F	Parks, Recreational Facilities		N	N		N	N	N	N	N		N				
03G	Parking Facilities					N	N	N	N							
03H	Solid Waste Disposal Improvements					N	N									
03I	Flood Drainage Improvements					N	N									
03J	Water/Sewer Improvements					N	N									
03K	Street Improvements					N	N									
03L	Sidewalks					N	N									
03M	Child Care Centers	N				N	N	N	N							
03N	Tree Planting					N	N		N							
03O	Fire Station/Equipment		N	N	N	N	N	N	N	N		N				
03P	Health Facilities					N	N	N	N							
03Q	Abused and Neglected Children Facilities	N				N	N	N	N							
03R	Asbestos Removal					N	N	N	N							
03S	Facilities for AIDS Patients (no op'ting costs)	N				N	N	N	N							
03T	Operating Costs Homeless/AIDS Patients	N	N	N		N	N	N	N	N	N	N		N	N	
03Z	Other Public Improvements Not Listed in 03A-03S					N	N									
04	Clearance and Demolition					N	N				N					
04A	Cleanup of Contaminated Sites					N	N				N					
05A	Senior Services	N	N	N		N		N	N	N	N	N		N	N	
05B	Services for Persons with Disabilities	N	N	N		N		N	N	N	N	N		N	N	
05C	Legal Services		N	N		N		N	N	N	N	N		N	N	
05D	Youth Services	N	N	N		N		N	N	N	N	N		N	N	
05E	Transportation Services		N	N		N		N	N	N	N	N		N	N	
05F	Substance Abuse Services		N	N		N		N	N	N	N	N		N	N	
05G	Services for Victims of Domestic Violence, Dating Violence, Sexual Assault, or Stalking	N	N	N		N		N	N	N	N	N		N	N	
05H	Employment Training		N	N		N		N	N	N	N	N		N	N	
05I	Crime Awareness		N	N		N		N	N	N	N	N		N	N	
05J	Fair Housing Activities-Subj.to Pub.Serv.Cap		N	N		N		N	N	N	N	N		N	N	
05K	Tenant/Landlord Counseling	N	N	N		N		N	N	N	N	N		N	N	
05L	Child Care Services	N	N	N		N		N	N	N	N	N		N	N	
05M	Health Services		N	N		N		N	N	N	N	N		N	N	
05N	Abused and Neglected Children	N	N	N		N		N	N	N	N	N		N	N	
05O	Mental Health Services		N	N		N		N	N	N	N	N		N	N	
05P	Screening for Lead Based Paint/Lead Hazards	N	N	N		N		N	N	N	N	N		N	N	
05Q	Subsistence Payments	N	N	N		N		N	N	N	N	N		N	N	
05R	Homebuyer Downpayment Assistance - Excluding Housing Counseling, under 24 CFR 5.100	N	N	N	N	N	N			N	N	N		N	N	
05S	Rental Housing Subsidies	N	N	N	N	N				N	N	N		N	N	
05T	Security Deposits	N	N	N	N	N				N	N	N		N	N	
05U	Housing Counseling Only, under 24 CFR 5.100	N	N	N	N	N	N			N	N	N	N	N	N	N
05V	Neighborhood Cleanups		N	N	N	N		N	N	N	N	N		N	N	
05W	Food Banks		N	N		N		N	N	N	N	N		N	N	
05X	Housing information and referral services	N	N	N		N	N			N	N	N	N	N	N	N
05Y	Housing Counseling under 24 CFR 5.100 supporting homebuyer downpayment assistance (05R)	N	N	N	N	N	N			N	N	N		N	N	
05Z	Other Public Services Not Listed in 03T and 05A-05Y		N	N		N		N	N	N	N	N		N	N	
06	Interim Assistance		N	N	N	N	N	N	N	N	N	N			N	
07	Urban Renewal Completion					N	N				N		N	N		N
08	Relocation					N	N				N					
09	Rental Income Loss					N	N				N					
11	Privately Owned Utilities					N	N				N					
12	Construction of Housing	N	N	N	N	N	N			N	N	N		N		
13A	Housing Counseling, under 24 CFR 5.100, for Homeownership Assistance 13B	N	N	N	N	N	N			N	N	N	N	N	N	N
13B	Homeownership Assistance - excluding Housing Counseling under 24 CFR 5.100	N	N	N	N	N	N			N	N	N	N	N	N	N

Matrix Code Key		National Objective Codes (**N** = Not Allowed)														
Code	Eligible Activity	LMA	LMAFI	LMASA	LMC	LMCMC	LMCSV	LMH	LMHSP	LMJ	LMJFI	LMJP	SBA	SBS	SBR	URG
14A	Rehab; Single-Unit Residential	N	N	N	N	N	N			N	N	N				
14B	Rehab; Multi-Unit Residential	N	N	N	N	N	N			N	N	N				
14C	Public Housing Modernization	N	N	N	N	N	N			N	N	N				
14D	Rehab; Other than Public-Owned Residential Buildings	N	N	N	N	N	N			N	N	N				
14E	Rehab. Pub./Pvt.-Comm'/Indust'					N	N	N	N		N					
14F	Energy Efficiency Improvements	N	N	N	N	N	N			N	N	N				
14G	Acquisition for Rehabilitation	N	N	N	N	N	N			N	N	N				
14H	Rehabilitation Administration					N	N				N					
14I	Lead-Based Paint Abetment	N	N	N	N	N	N			N	N	N				
14J	Housing Services, excluding Housing Counseling under 24 CFR 5.100	N	N	N	N	N	N			N	N	N	N	N	N	N
14K	Housing Counseling, under 24 CFR 5.100, Supporting HOME Program Assistance Housing Activities	N	N	N	N	N	N			N	N	N	N	N	N	N
14L	Housing Counseling, under 24 CFR 5.100, in Conjunction with CDBG Assisted Housing Rehab	N	N	N	N	N	N			N	N	N				
15	Code Enforcement		N	N	N	N	N	N	N	N	N	N		N		
16A	Residential Historic Preservation	N	N	N	N	N	N			N	N	N				N
16B	Non-Residential Historic Preservation					N	N	N	N		N					N
17A	ED Acquisition by Recipient					N	N	N	N							
17B	CI Infrastructure Development					N	N	N	N					N		
17C	CI Building Acq., Construction, Rehabilitation					N	N	N	N		N					
17D	Other Commercial/Industrial Improvements					N	N	N	N		N					
18A	ED Assistance to For-Profits				N	N	N	N	N		N			N		
18B	Economic Development: Technical Assistance				N	N		N	N		N			N		
18C	Micro-Enterprise Assist.						N	N	N		N			N		
19C	Nonprofit Capacity Building															
19E	Operation and Repair of Foreclosed Property		N	N	N	N	N			N	N	N	N	N	N	N
19F	Planned Repayments of Sec.108 Loans	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
19G	Unplanned Repayments of Sec.108 Loans	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
19H	State CDBG Technical Assistance to Grantees	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
20	Planning	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
20A	State Planning-only 570.483(b)(5) and (c)(3)															N
21A	General Program Admin. - 570.206	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
21B	Indirect Costs	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
21C	Public Information	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
21D	Fair Housing Activity (subject to Admin. cap)	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
21E	Submissions or Applications for Federal Programs	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
21H	CDBG Funding of HOME Admin.	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
21I	CDBG Funding of HOME CHDO Operating Costs	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
21J	State Administration Costs	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
23	Tornado Shelters - Private Mobile Home Parks		N	N	N	N	N	N	N	N	N	N	N	N	N	N
24A	Payment of Interest on Section 108 Loans	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
24b	Payment of Costs of Section 108 Financing															
24C	Debt Service Reserve	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

National Objective Key		Entitlements	States
LMA	Low- and moderate-income (Low/Mod) Area Benefit	570.208(a)(1)	570.483(b)(1)
LMAFI	Low/Mod Area Benefit CDFI	570.208(d)(6)(i)	570.483(e)(4)
LMASA	Low/Mod Area Benefit NRSA	570.208(d)(5)(i)	570.483(e)(5)
LMC	Low/Mod Limited Clientele	570.208(a)(2)	570.483(b)(2)
LMCMC	Low/Mod Limited Clientele Microenterprise Development	570.208(a)(2)(iii)	570.483(b)(2)(iv)
LMCSV	Low/Mod Limited Clientele, Job Service Benefit	570.208(a)(2)(iv)	570.483(b)(2)(v)
LMH	Low/Mod Housing	570.208(a)(3)	570.483(b)(3)
LMHSP	Low/Mod Housing, CDFI or NRSA	570.208(d)(5)(ii) & (d)(6)(ii)	570.483(e)(5)
LMJ	Low/Mod Job Creation or Retention	570.208(a)(4)	570.483(b)(4)
LMJFI	Low/Mod Job Creation/Retention, Public Facility/Improvement	570.208(a)(4)(vi)(F)	570.483(b)(4)(vi)(F)
LMJP	Low/Mod Job Creation or Retention, Location Based	570.208(a)(4)(iv)(B)	570.483(b)(4)(iv)(B)
SBA	Slum and Blight Area	570.208(b)(1)	570.483(c)(1)
SBS	Slum and Blight Spot	570.208(b)(2)	570.483(c)(2)
SBR	Slum and Blight Urban Renewal/Planning Activities (States)	570.208(b)(3)	570.483(c)(3)
URG	Urgent Needs	570.208(c)	

IDIS – National Objective Codes for CDBG			
		Regulatory Citations	
N.O. Code	National Objective Description	Entitlement Communities	States
LMA	Low/Mod Area Benefit	570.208(a)(1)	570.483(b)(1)
LMAFI	Community Development Financial Institution (CDFI)	570.208(d)(6)(i)	570.483(e)(4)
LMASA	Neighborhood Revitalization Strategy Area	570.208(d)(5)(i)	570.483(e)(5)
LMC	Low/Mod Limited Clientele Benefit	570.208(a)(2)	570.483(b)(2)
LMCMC	Microenterprise	570.208(a)(2)(iii)	570.483(b)(2)(iv)
LMCSV	Job service benefit	570.208(a)(2)(iv)	570.483(b)(2)(v)
LMH	Low/Mod Housing Benefit	570.208(a)(3)	570.483(b)(3)
LMHSP	CDFI or Neighborhood Revitalization Strategy Area	570.208(d)(5)(ii) & (d)(6)(ii)	570.483(e)(4) & (e)(5)
LMJ	Low/Mod Job creation/retention	570.208(a)(4)	570.483(b)(4)
LMJFI	Public Facility/ Improvement benefit	570.208(a)(4)(vi)(F)	570.483(b)(4)(vi)(F)
LMJP	Location based	570.208(a)(4)(iv)	570.483(b)(4)(iv)
SBA	Slum/Blight Area Benefit	570.208(b)(1)	570.483(c)(1)
SBS	Slum/Blight spot basis	570.208(b)(2)	570.483(c)(2)
SBR	Slum/Blight in an urban renewal area	570.208(b)(3)	
URG	Urgent Need	570.208(c)	570.483(d)
LMAFI	Community Development Financial Institution (CDFI)	570.208(d)(6)(i)	570.483(e)(4)
LMASA	Neighborhood Revitalization Strategy Area	570.208(d)(5)(i)	570.483(e)(5)
LMCMC	Microenterprise	570.208(a)(2)(iii)	570.483(b)(2)(iv)
LMCSV	Job service benefit	570.208(a)(2)(iv)	570.483(b)(2)(v)
LMHSP	CDFI or Neighborhood Revitalization Strategy Area	570.208(d)(5)(ii) & (d)(6)(ii)	570.483(e)(4) & (e)(5)
LMJFI	Public Facility/ Improvement benefit	570.208(a)(4)(vi)(F)	570.483(b)(4)(vi)(F)
LMJP	Location based	570.208(a)(4)(iv)	570.483(b)(4)(iv)

Re: [EXTERNAL] Detroit MCM/MCR - Reconciling Costs

Nicole Wyse <roddenbowenn@detroitmi.gov>
Tue 9/8/2020 5:26 PM

To: Vails, Cynthia C <Cynthia.C.Vails@hud.gov>
Cc: Lindsay Wallace <WallaceL@detroitmi.gov>; Bagley, Kathy F <Kathy.F.Bagley@hud.gov>; Sorbo, Mark F <Mark.F.Sorbo@hud.gov>

2 attachments (32 KB)

PR07 - Drawdown Report by Voucher Number - Vouchers Submitted to Loccs_Detroit MCM questioned costs.xlsx; ATT00001.htm;

Hello Cindy, thanks for the PR07 report, this is helpful as we continue to reconcile MCM expenditures. HRD used the $8.2MM as the amount to reallocate expenses by Business based on the letter from HUD in July, but chose to review expenses through December 2018 (Round 13) since the DEGC audit being performed by HRD began in January of 2019. We understand that once HUD agrees with our methodology, we will then need to account for the remaining $1.2MM. We believe that some of that will be completed when we review expenditures incurred after Jan 1, 2019, and all ineligible costs will be a part of the city's total remittance. As IDIS is reconciled by business, it will also help adjust for any ineligible/unaccounted expenses (due to things like pro-rating staff time, business plan, etc). The important thing to note is that the city had to review every invoice and reallocate costs by business, understanding that some expenditures may not be eligible or accounted for based on new methodologies. I am happy to talk through more at our meeting next Friday and get suggestions on how we can update so it is easier for you and the team to review.

Thanks!

Nicole

Sent from my iPhone

> On Sep 4, 2020, at 1:53 PM, Vails, Cynthia C <Cynthia.C.Vails@hud.gov> wrote:
>
> Hi Nicole and Lindsay,
> Thanks again for sharing your time with us to walk us through the MCM/MCR costs.
> The summary sheet you walked us through was very helpful.
> I started to think more about the $8.2 million in MCM/MCR costs that were questioned.
> I did a few things.
> I ran a PR07 report in IDIS to look at all the MCM/MCR draw vouchers that I could identify and I looked back at the analysis that I performed back in 2018.
> I verified that the cut-off date for my analysis was July 13, 2018. I added up the MCM/MCR draws up until that date and the sum was $8.2 million.
> Therefore I am thinking that if costs were added in that were incurred after July 13, 2018, the total on the summary sheet should have exceeded the $8.2 million that was questioned.
> The PR07 report shows an additional $1.1 million was drawn after my HUD analysis was completed for a total in $9.4 million drawn for MCM/MCR.
> I attached the PR07 that shows the amounts that were included in these calculations.
> At some point soon, I need to circle back with you to reconcile the costs that tie back to the amount that was drawn up until July 13, 2018.

Please let me know.
Thanks,
Cindy

Cynthia Cooper Vails
Sr. Financial Analyst, Community Planning and Development
Detroit Field Office
U.S. Dept. of Housing and Urban Development
Patrick V. McNamara Federal Building
477 Michigan Avenue, 16th Floor
Detroit, MI 48226
Tel: (313) 234-7335
Fax: (313) 226-6689
Cynthia.c.vails@hud.gov

Housing and Revitalization Department
CITY OF DETROIT

Coleman A. Young Municipal Center
2 Woodward Avenue. Suite 908
Detroit, Michigan 48226

Phone: 313.224.6380
Fax: 313.224.1629
www.detroitmi.gov

May 1, 2020

The Economic Development Corporation of the City of Detroit
Attention: Authorized Agent
500 Griswold, Suite 2200
Detroit, MI 48226

NOTICE OF DEFAULT – CONTRACT 6000226

Dear Authorized Agent:

This letter serves as notice that The Economic Development Corporation of the City of Detroit ("EDC") is in default of that certain Contract 6000226 - Amended and Restated City of Detroit Community Development Block Grant (CDBG) Subrecipient Agreement as approved by Detroit City Council on July 19, 2016, as amended by Amendment No. 1 approved by Detroit City Council on May 07, 2019, as amended by Amendment No. 2 approved by Detroit City Council on July 23, 2019, as amended by Amendment No. 3 approved by Detroit City Council on November 26, 2019, as amended by Amendment No. 4 approved by Detroit City Council on November 26, 2019 (collectively the "Agreement").

The City engaged the EDC under the Agreement to perform certain services that would increase economic activity and physical revitalization of commercial areas throughout the City of Detroit. EDC has performed such services in connection with EDC's Motor City Match and Motor City Re-Store programs (the "Programs"). The City has partially funded the Agreement from Community Development Block Grant dollars ("CDBG Funds") from the U.S. Department of Housing and Urban Development ("HUD").

Among EDC obligations under the Agreement, EDC must: (1) comply, and require all employees, consultants, subrecipients or subcontractors to comply, with all applicable Federal, State and local laws, including Title I of the Housing and Community Development Act of 1974, as amended, 24 CFR Part 570, 48 CFR Part 31 and 2 CFR Part 200 (Sec. 12.01), and (2) keep and maintain full and complete records documenting all activities performed pursuant to the Agreement and all financial records associated therewith (Sec. 14.01).

Various reviews of EDC's performance under the Agreement by HUD, the Chief Financial Officer and the City's Housing & Revitalization Department, have found several instances of non-compliance and omissions on the part of EDC, especially where the above referenced EDC obligations cited above are concerned.

Most recently in July and August 2019, HRD requested EDC provide an updated list of all subawards granted, businesses assisted and Program costs paid to date with CDBG Funds under the Agreement. On July 10, 2019, EDC provided a spreadsheet that listed businesses assisted and that included instructions on how to reconcile Program financials to invoices on file. On July 16, 2019, EDC provided a document listing all "technical assistance" paid to vendors for the Program. On August 18, 2019, EDC provided a third document that identified all companies/firms that were procured for the Program with CDBG Funds for purposes of determining eligibility. Upon City review of the documents provided by EDC, the City discovered several missing vendors (Professional Services Industries, Inland Press, ARC and Creative Differences) and missing Program costs totaling $1,707,975.35.

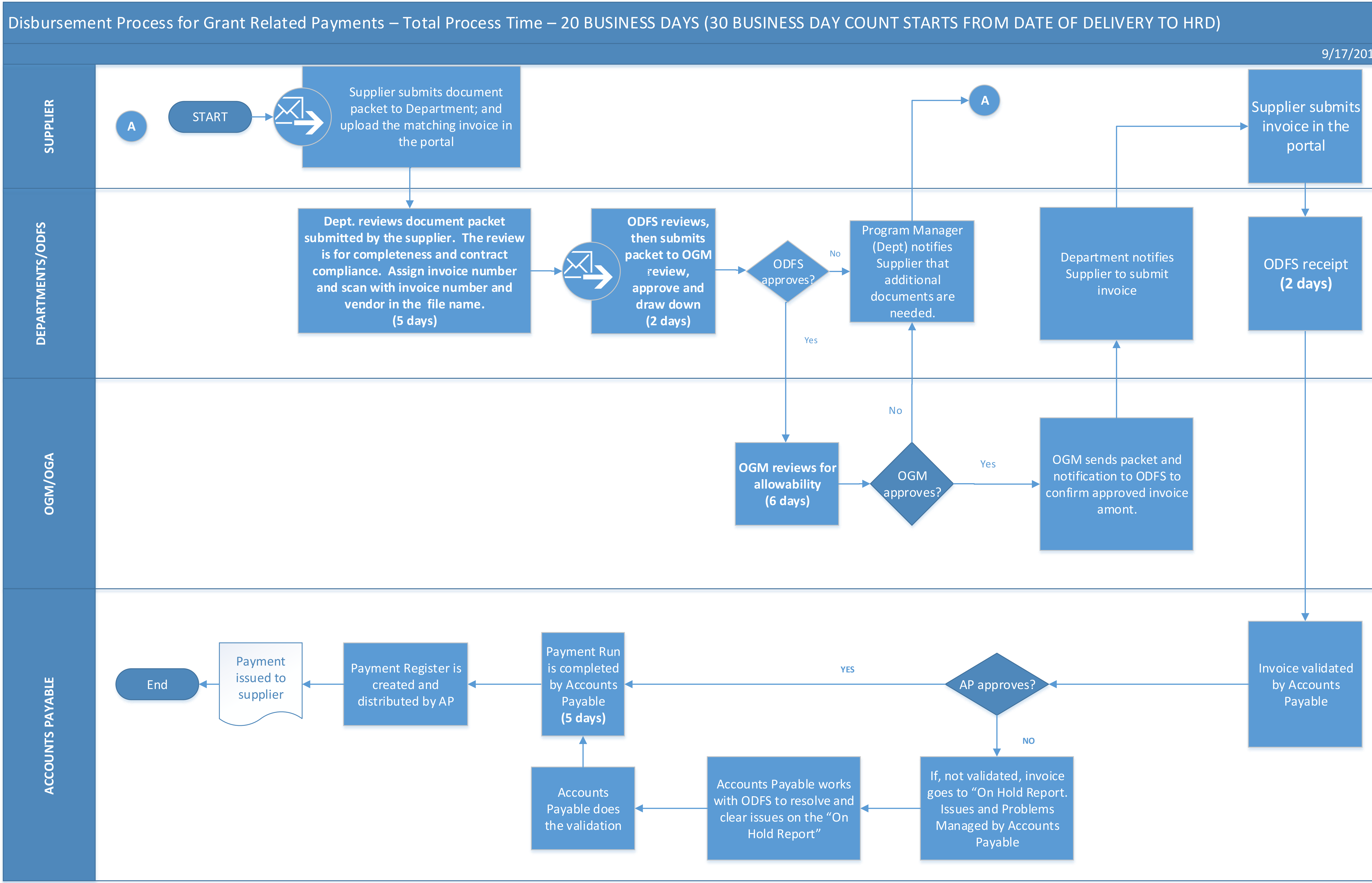
In the event that EDC's acts and/or omissions under the Agreement cause the City to suffer damages, monetary or otherwise, the City will have no choice but to exercise its available rights and/or or remedies, including but not limited to, indemnification rights under the Agreement, seeking recovery of damages and/or terminating the Agreement. Nothing herein shall in any way limit or impair the City's rights or remedies at law or in equity.

Because the services required by the Agreement are a vital component to the economic stability of the small business community in the City of Detroit, now so more than ever, the City is hereby requesting a written response from the EDC that addresses the missing vendor and Program cost information from its 2019 reporting and how the EDC may take responsibility for these actions and put protocols and measures in place to prevent future defaults of this kind moving forward. At this time, the City will look to receive such response from the EDC by May 8, 2020 before taking any further legal action.

Sincerely,

Donald Rencher
Director

cc: Arthur Jemison (Mayor's Office)



Disbursement Process for Grant Related Payments – Total Process Time – 20 BUSINESS DAYS (30 BUSINESS DAY COUNT STARTS FROM DATE OF DELIVERY TO HRD)
9/17/2017
SUPPLIER
DEPARTMENTS/ODFS
OGM/OGA
ACCOUNTS PAYABLE
A
START
Supplier submits document packet to Department; and upload the matching invoice in the portal
Dept. reviews document packet submitted by the supplier. The review is for completeness and contract compliance. Assign invoice number and scan with invoice number and vendor in the file name. (5 days)
ODFS reviews, then submits packet to OGM review, approve and draw down (2 days)
ODFS approves?
No
Yes
Program Manager (Dept) notifies Supplier that additional documents are needed.
A
OGM reviews for allowability (6 days)
OGM approves?
No
Yes
OGM sends packet and notification to ODFS to confirm approved invoice amont.
Department notifies Supplier to submit invoice
Supplier submits invoice in the portal
ODFS receipt (2 days)
Invoice validated by Accounts Payable
AP approves?
YES
NO
If, not validated, invoice goes to “On Hold Report. Issues and Problems Managed by Accounts Payable
Accounts Payable works with ODFS to resolve and clear issues on the “On Hold Report”
Accounts Payable does the validation
Payment Run is completed by Accounts Payable (5 days)
Payment Register is created and distributed by AP
Payment issued to supplier
End

CITY OF DETROIT
PAYMENT PROCESSING FORM

Supplier Name: ____________________ **SPO #:** ____________________

Invoice #: ____________________ **Invoice Date:** ____________________

Cost Center: ____________________ **Appropriation #:** ____________________

Project Name: ____________________ **Fund Year(s):** ____________________

HUD Activity #: ____________________ **First Trust:** ☐ Yes ☐ No

Fund Type (all that apply): ☐ CDBG ☐ ESG ☐ CDBG-DDR ☐ HOME CHDO ____________________

☐ NSP 1 ☐ NSP3 ☐ EDI ☐ HOPWA ☐ General Fund ☐ Bond

		☐ LEAD Grant		☐ Direct	☐ Administrative
Beginning Balance		Personnel		Abatement & Interim Control	
		Fringe Benefits		Data Collection & Analysis	
Payment Amount		Mileage		Relocation	
		Travel		Healthy Homes	
Ending Balance	**$0.00**	Equipment		Other	
		Supplies/Materials			

LEAD LEAD

Description	**Dates of Service:** ____________________

Account Code Combinations								Payment Amount
Fund	Appn	Cost Center	Object Code	Project	Activity	Intrafund	Future	

Prepared by: ____________________ ____________________ ____________________
(program manager) print sign date

Approved by: ____________________ ____________________ ____________________
(preparer supervisor) print sign date

ODFS Approved: ____________________ ____________________ ____________________
print sign date

OGM Approved: ____________________ ____________________ ____________________
print sign date

Grants Accounting Use Only

Voucher Number: ____________________

Drawn By: ____________________ ____________________ ____________________
print sign date

Approved By: ____________________ ____________________ ____________________
print sign date

Updated: 1/23/2018

FW: Implementation Documents Supplier Portal HRD

Katerli Bounds <boundsk@detroitmi.gov>
Wed 9/30/2020 6:25 PM
To: Katerli Bounds <boundsk@detroitmi.gov>

6 attachments (111 KB)

Kennedy Shannon.vcf; Payment Processing Form 2.12.2018.xlsx; Final Payroll Checklist.xlsx; First Trust Payment Processing Checklist.xlsx; HRD Authorization to Submit Invoice Notice.docx; General Payment Processing Checklist.xlsx;

From: Kennedy Shannon <shannonk@detroitmi.gov>
Sent: Tuesday, March 6, 2018 2:49 PM
To: Gregory Andrews <andrewsgr@detroitmi.gov>; George Valikodath <Valikodathg@detroitmi.gov>
Subject: Implementation Documents Supplier Portal HRD
Importance: High

Hello All

Please find attached to this email all required forms for Implementation for payment using the isupplier Portal. HRD Please make sure that all appropriate staff have these checklist and the new payment processing forms. The HRD Authorization to submit form needs to be placed on HRD letterhead and must be completed accurately in order for the subs to have accurate information to put into the system. Please let me know if you have any questions, or feel free to see Tamra in HRD regarding process questions.

Thanks

Kennedy A. Shannon, Esq.
City of Detroit
Assistant Director - Office of Development & Grants
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1026
Detroit, Michigan 48226
Phone 313•224•4715
Fax 313•224•0542
shannonk@detroitmi.gov

FW: Motor City Match invoice issue

Katerli Bounds <boundsk@detroitmi.gov>

Thu 10/1/2020 8:40 AM

To: Katerli Bounds <boundsk@detroitmi.gov>

From: Ryan Friedrichs <friedrichsr@detroitmi.gov>
Sent: Friday, February 1, 2019 3:03 PM
To: Katerli Bound <boundsk@detroitmi.gov>
Subject: Re: Motor City Match invoice issue

Great detailed follow-up here

Ryan Friedrichs
Director/Chief Development Officer
Office of Development and Grants
City of Detroit
2 Woodward Ave, Suite 1126
Detroit, MI 48226

Office: 313-224-0957
Cell: 313-770-7242
FriedrichsR@detroitmi.gov
www.detroitmi.gov

Michael E. Duggan, Mayor

Sent from my iPhone

On Jan 30, 2019, at 9:53 AM, Katerli Bounds <boundsk@detroitmi.gov> wrote:

Hi Dave - Apologies for the delay on this.

After reviewing the invoice history and discussing with HRD, there are two major factors at play here:

1. the Motor City Match program was a major source of HRD's recent NRSA-related finding, putting the City at risk for ~$8M in questioned costs. As a result, HUD directed that we should stop invoice payments to EDC until the issue could be resolved - this happened in early Oct. Since then:

- We processed a partial payment for the month of Sept, and the remainder of that month in late Dec. They submitted for their Oct payment on 1/12, and HRD and our team spent a full week providing direct TA on their invoice packet with them to resolve the documentation issues at the root of the finding. That invoice was paid on 1/25.
- We expect the invoice for Nov this week, which will be straightforward to process as long as they have provided the correct documentation - payment of this invoice will be expedited, and assuming there are no major concerns, they will be allowed to invoice for Dec.
- Two of my staff are working with HRD to ensure that appropriate policies and procedures are in place to monitor NRSA compliance going forward; they are also working with DEGC to review and correct Motor City Match invoices from the last ~3 years to minimize the $ value of the questioned costs

2. on average since the roll-out of the new purchasing system, EDC invoices have been paid within 42 days - this varies considerably through out the year, with the majority of payments being under 30 days, but ~10% taking

more than 100 days to pay. I suspect that these delays have been related to HRD's funds forward issues, but that's hard to prove. The average is relatively static from 2017 to 2018 (though better than 2016).

RE the finding, the two related problems are (1) that EDC has been charging indirect costs in excess of what is allowable, and (2) that they have not appropriately documented for their indirect costs that the costs are associated with the NRSA geographies and have been tied to the required NRSA impacts.

Kat

FW: Need to leave dont feel well and MCM Payment packet

Katerli Bounds <boundsk@detroitmi.gov>
Fri 10/2/2020 6:39 PM
To: Katerli Bounds <boundsk@detroitmi.gov>

From: Katerli Bound <boundsk@detroitmi.gov>
Sent: Monday, March 11, 2019 2:16 PM
To: Kenny Shannon <shannonk@detroitmi.gov>
Cc: Ryan Friedrichs <friedrichsr@detroitmi.gov>
Subject: Re: Need to leave dont feel well and MCM Payment packet
Importance: High

Hope you feel better.

There are a number of outstanding deliverables from our last few check-ins that I still need from you, and were on the schedule for today. Please make sure to send me the following by COB tomorrow:

- Revised close-out brief and summary page
- A copy of Chris Jones' submitted signed eval (thank you for fwding the probation forms for George and Carla)
- Revised strategy and plan for identifying and elevating grant impacts via comms

In addition, I believe this is the third time the close-out overview for Eric has been rescheduled. This is now beginning to hold up their work, so please ensure that this meeting occurs this week.

Your proposed ETA for cleaning-up R+C's files in the share drive was this Fri - please ensure that this is done. Your lane is the only one to have not yet completed this effort.

RE the below, please see my response in blue. **We need to discuss asap if by "refuse to be associated" you mean that you will not sign this packet regardless of documentation provided. Please advise.**

Thanks, Kat
>>>

From:	Kennedy Shannon
To:	Katerli Bounds
Date:	3/11/2019 1:29 PM
Subject:	Need to leave dont feel well and MCM Payment packet

Hey Kat

I am leaving early today. I feel a migraine coming on and I need to get home before it hits. I can meet tomorrow for our one on one or any other day you want. Also, the January packet for MCM I do not feel comfortable signing off on that payment as the program costs are not reasonable as required by HUD. As discussed last week, we are moving forward on two parallel paths -
1. reviewing the January packet following the same criteria and approach as were used in November and December, and
2. meeting with DEGC to review in more detail the additional materials etc as you listed in your draft email Fri, and ensure a clear, data-driven and consistent understanding of the program structure, costs and billing, particularly in regards to the specific questions formulated by HUD and that have arisen as a result of changes to the packet structure and content that were requested following the questioned costs.

As discussed last week, proceeding with these in parallel was the agreed approach in order to balance continued service and spending with the needed course corrections. I was just informed by Tamra that she received a FOIA request for MCM Spending and the Mayors office received request for information on MCM outstanding audit finding for questioned costs. I do not want to be associated with this payment packet, What do you mean by this? It is part of your job to oversee reimbursements. Requesting additional documentation or issuing a clear and specific letter of deficiency are both potentially viable courses of action, but "refusing to be associated" with this packet implies something broader. Please explain. and especially after the meeting we had last week and the information received on how they are running there program. I am told that HRD staff have also voiced concerns over approving/signing this packet and that Donald will sign on the departments behalf. Please let me know if you have any questions you can call me on my cell 313-587-0861. I will send my official document request to DEGC tomorrow, HRD has approved what I included in the email.

Kennedy A. Shannon, Esq.

City of Detroit

Assistant Director - Office of Development & Grants
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1026
Detroit, Michigan 48226
Phone 313•224•4715

Fax 313•224•0542
shannonk@detroitmi.gov

U.S. Department of Housing and Urban Development
Community Planning and Development

Special Attention of:

All CPD Division Directors
All CDBG Grantees

Notice: CPD 13-07

Issued: August 23, 2013
Expires: August 23, 2014

SUBJECT: Allocating Staff Costs between Program Administration Costs vs. Activity Delivery Costs in the Community Development Block Grant (CDBG) Program for Entitlement Grantees, Insular Areas, Non-Entitlement Counties in Hawaii, and Disaster Recovery Grantees

Table of Contents

I. INTRODUCTION AND PURPOSE

There has been much confusion when determining whether a staff cost should be allocable as a program administrative cost or an activity delivery cost, as well as confusion over the treatment of direct or indirect costs associated with these two cost categories.

This Notice provides guidance on the allocation of staff costs for the CDBG program between two cost categories: (1) general program administrative costs, as related to overall program planning and CDBG grant administration; and (2) activity delivery costs, as related to implementing and carrying out specific CDBG-eligible activities.

HUD recognizes that the existing use of "administration" throughout its regulations can cause confusion. To clarify, the Office of Block Grant Assistance will use the term PACs for Program Administrative Costs and ADCs for Activity Delivery Costs, in order to differentiate between the two.

The Office of Management and Budget (OMB) establishes principles to maintain a uniform approach for determining costs and promoting effective program delivery and efficiency. The most applicable sections to the CDBG program are: OMB Circular A-87, which has been relocated to 2 CFR Part 225, and contains the <u>Cost Principles for State, Local, and Indian Tribe Governments</u>, and OMB Circular A-122, which has been relocated to 2 CFR Part 230, and contains the <u>Cost Principles for Nonprofit Organizations</u>. The basic guidelines address the following aspects of costs: the factors of cost allowability, cost reasonableness, allocable costs, applicable credits, and the composition of costs as either direct or indirect. These principles also provide guidance for allocating allowable costs to program administration costs or activities with final cost objectives (see Appendix C for definition of final cost objectives) to activity delivery costs.

The Insular Areas (Guam, Virgin Islands, American Samoa, Trust Territory of the Pacific Islands, and the Northern Mariana Islands) and Nonentitlement Areas in Hawaii follow the Part 570 regulations for entitlement communities regarding PACs and ADCs. <u>The treatment of these costs for the State CDBG program is not addressed in this guidance.</u>

II. BACKGROUND

Program administration costs (PACs). The statutory provision regarding the eligible use of CDBG funds to pay PACs is section 105(a)(13) of the Housing and Community Development of 1974, as amended (the HCDA). The general program administration regulations are codified at 24 CFR 570.205 and 570.206. Costs attributable to program administration are limited in that not more than 20 percent of the annual grant, and the estimated amount of program income to be received during the grantee's current program year, can be obligated by entitlement grantees, Insular Areas, and Nonentitlement Counties in Hawaii for such costs. The 20 percent limitation is not contained in the HCDA, but has been included in annual appropriations acts for the CDBG program since 1978. The limitation on program administration costs is codified at 24 CFR 570.200(g). Examples of program administration costs allocable to the CDBG program include the following:

1. Salaries of executive officers and staff with general program oversight responsibilities;
2. Leased office space for staff employed in carrying out the CDBG program;
3. Staff time spent for the development of general CDBG program policies and procedures, such as the monitoring of overall program performance;
4. Staff time spent for the development of the Consolidated Plan/Action Plan and Consolidated Annual Performance and Evaluation Report (CAPER); and
5. Administrative services performed under third-party contracts, such as legal, accounting, and auditing services or development of the Consolidated Plan.

As noted above, under the authority of 24 CFR 570.206, CDBG funds may be used to pay staff costs for persons responsible for general CDBG program administration as a whole. These general PACs cover such positions as a community development director, urban planner generalists, and general administrative and clerical staff. In addition, staff costs associated with compliance oversight and monitoring of a grantee's subrecipients would generally fall under the program administration cost category as well unless such costs may be allocated to a final cost objective.

Activity delivery costs (ADCs). ADCs are those allowable costs incurred for implementing and carrying out eligible CDBG activities. All ADCs are allocable to a CDBG activity, including direct and indirect costs integral to the delivery of the final CDBG-assisted activity. CDBG expenditures for activity delivery costs are not governed by 24 CFR 570.205 and 570.206.

To recognize the difference between ADCs and PACs, 24 CFR 570.206 notes that "staff and overhead costs directly related to carrying out activities [are] eligible under 570.201 through 570.204, since those costs are eligible as part of such activities." In addition, 24 CFR 570.205(a)(4)(iii) and (iv) state that "…engineering and design costs related to a specific activity… are eligible as part of the cost of such activity under 570.201-570.204." Examples of ADCs allocable to CDBG activities include the following:

1. Compensation of employees for the time devoted to the performance of implementing and carrying out a specific eligible CDBG activity, such as carrying out as a public service or implementing an ongoing housing rehabilitation program;
2. Cost of materials acquired, consumed, or expended by staff in carrying out a specific eligible CDBG activity, such as the paper for housing rehabilitation program applications or uniforms for code enforcement staff working in eligible areas; and
3. Travel costs incurred specifically for carrying out eligible activities, such as visits made to the job site of a housing rehabilitation activity to ensure legitimate progress payments.

Direct and Indirect Costs. All costs are either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. General standards and guidelines for determining direct and indirect costs charged to Federal awards are provided at Appendix A to 2 CFR Part 225.

According to Appendix C, Section E, direct costs are those that can be identified specifically with a particular final cost objective. Typical direct costs chargeable to Federal awards are compensation of employees for the time devoted and identified specifically to the performance of those awards; the cost of materials acquired, consumed, or expended specifically for the purpose of those awards; equipment and other approved capital expenditures; and travel expenses incurred specifically to carry out the award. In addition, any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

According to Section F of Appendix A, general indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

III. ALLOCATION OF STAFF COSTS

A. Program Administration Costs (PACs)

The allocation of staff-time costs and overhead charges to general program administration is eligible under 24 CFR 570.205 and 570.206. These provisions allow "reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part [with CDBG funds]." As set forth at 24 CFR 570.200(g), HUD will find a grantee in compliance with this requirement if the grantee limits the amount of CDBG funds *obligated* for planning plus administration during each program year to an amount not greater than 20 percent of the sum of its entitlement grant made for that program year plus the estimated amount of program income to be received by the grantee and its subrecipients during that same program year.

1. The National Objective and Proportional Costs

The HCDA requires that CDBG expenditures be made for eligible activities that result in meeting one of three national objectives: (1) provides benefit principally to persons of low and moderate income (LMI); (2) aids in the prevention or elimination of slums or blight; or (3) meet a need having a particular urgency that the grantee is unable to finance on its own. However, general PACs are not required to meet a specific CDBG national objective because such costs are generally made in support of other CDBG-eligible activities that meet a national objective. Thus, PACs are *not* calculated under the 70 percent overall LMI benefit requirement at 24 CFR 570.200(a)(3)(i).

Where an individual performs general administration functions and implements specific eligible CDBG activities under 24 CFR 570.201-204, the grantee may elect to charge *all* of such staff costs to the program administration category, or *only a portion* of such costs to program administration, with the balance of CDBG-eligible costs allocable to the activity as ADCs. It is important that the grantee ensure that only ADC-eligible costs are charged to this category. However, PACs may not be charged as ADCs. It is also important that the treatment of dividing allocable costs between PACs and ADCs is consistently applied and supported by staff timesheet documentation relative to specific eligible activities.

2. Urban County and Subrecipient Administrative Costs

An urban county entitlement grantee must be especially cognizant of allocating staff costs for general administration and oversight of its CDBG program. To carry out any eligible CDBG activity, the county can use its own staff, the staff of a unit of general local government (UGLG), a subrecipient's staff [as defined in 24 CFR 570.500(c)], or contractor's staff [as procured in compliance with 24 CFR 570.85.36]. An urban county has a unique relationship with an UGLG, as it is required to impose upon a participating UGLG the same requirements that apply to a subrecipient [See 24 CFR 570.501(b) and 570.503 requirements]. Persons responsible for administering the general CDBG program as a whole either at the county level or the UGLG level would incur staff costs allocable to the general program administration costs category [24 CFR 570.206] and thus be subject to the 20 percent cap. (HUD has issued previous guidance on subrecipient agreements and grantee management in "*Managing CDBG: a Guidebook for Entitlement Grantees on Subrecipient Oversight*," March 2005.)

UGLGs are generally awarded CDBG funds by the urban county and treated as subrecipients to carry out eligible activities within the county's boundaries. The county uses its staff to administer UGLG cooperation agreements and monitor UGLG performance as appropriate. Notwithstanding, a question may arise regarding the salary of a person that works for the UGLG that is carrying out a series of eligible activities, as there may be instances in which the UGLG staff generally administer the contract and contract performance, and carry out a portion of the associated ADCs for a project with a final cost objective. In such instances, the UGLG's staff time shall be prorated and allocated to each cost category (PACs and ADCs) accordingly. Care is warranted, as it is the urban county that is responsible for ensuring that staff costs incurred by the UGLG are allocated appropriately as PACs or ADCs as described in this Notice. County staff may incur both ADCs and PACs in some cases. An example is conducting or attending job walks, bid openings, and pre-construction conferences for construction projects. If the urban county is overseeing and reviewing preconstruction activities for a participating UGLG, the cost would be classified as a PAC. However, if the county was directly managing pre-construction activity rather than the UGLG, the cost would be classified as an ADC.

Grantees are reminded to monitor activities carried out by their staff and their subrecipients to ensure that general administrative costs are not inappropriately charged as activity delivery costs as a means to avoid the 20 percent program administration cap. Moreover, all costs must be allocable as either direct or indirect costs according to 2 CFR 225.

3. Allocating other CPD programs' administrative costs to CDBG

Grantees may charge other formula program [e.g., HOME, ESG, or HOPWA] PACs to the CDBG program in certain circumstances, subject to the limitations below. However, this is not permitted with CDBG Disaster Recovery funds. PACs are allocable to other formula CDBG programs in proportion to the amount of time staff spend working on such programs, or with regard to managing activities in support of other programs, such as is the case with the use of CDBG to pay general program administration costs for the HOME program [24 CFR 570.206(i)(2)]. However, it is critical to note that where such costs are collectively treated as program administration because they are subject to the CDBG program's overall 20 percent cap on PACs.

Grantees must maintain adequate records and documentation in support of all costs, as set forth in the following sections of the regulations: 24 CFR 570.502 and 570.506; and Part 85.20, standards for financial management systems. Additionally, the grantee's records should clearly show there is a consistent treatment of like costs under similar circumstances.

a. *HOME and EZ/EC Costs.* Section 105(a)(13) of the HCDA and 24 CFR 570.206(i) provide that CDBG funds may be used to pay costs for carrying out the overall administration of a *federally* designated Empowerment Zone (EZ) or Enterprise Community (EC), and the Affordable Housing Program (HOME) under 24 CFR Part 92 and 24 CFR 570.206. Renewal Communities (RCs) are not included as eligible communities under this statutory and regulatory provision. CDBG funds may be used to pay a combination of PACs for these EZs, ECs, and the HOME program; however as noted earlier, the combined costs for using CDBG in this manner is subject to CDBG's overall 20 percent cap. To illustrate, in a current program year, if a grantee decides to obligate 10 percent of its program administration budget for the HOME program, then it must limit its obligations for its CDBG program administration costs to 10 percent in the same program year.

   Section 105(a)(20) of the HCDA states that CDBG funds may be used to pay for housing services associated with projects assisted under the HOME program. This CDBG eligible activity was promulgated under 24 CFR 570.201(k) in the Entitlement program. Hence, while HOME program administration costs remained eligible under Section 105(a)(13) of the HCDA and 24 CFR 570.206(i) in the Entitlement program, HOME ADCs became eligible under 24 CFR 570.201(k). (See section III B. of this Notice for further discussion of ADCs under the HOME program.)

b. *ESG, SHP, HOPWA Costs.* As a general rule, neither the statute nor the regulations provide for the use of CDBG funds to pay PACs *solely* for the administration of the following CPD programs: Emergency Solutions Grant (ESG) program, the Supportive Housing Program (SHP) program, RCs, or the Housing Opportunities for Persons with AIDS (HOPWA) program. For example, a staff person in a general administrative position that works only for the ESG program may <u>not</u> be paid with CDBG funds for their time spent on the ESG program.

Notwithstanding, there are circumstances where CDBG funds may be used for staff administration costs associated with eligible ESG, SHP, or HOPWA activities (such as homeless services, health screening, or job training). CDBG funds may be used to pay PACs attributable to any of these programs if the activities carried out are otherwise CDBG eligible and meet all CDBG requirements (e.g., eligibility, national objective compliance, and environmental review requirements). For example, when a staff person spends most of his/her time administering the CDBG program, and a small part of their time carrying out general administrative functions for the ESG program, the *only* administrative staff time allocable to the CDBG program is that time spent on administering the CDBG program and carrying out CDBG-eligible ESG activities.

c. *Consolidated Plan and Annual Action Plan Costs*. Another circumstance where costs are eligible as CDBG PACs is when the grantee is preparing its Consolidated Plan and/or annual Action Plan [24 CFR Part 91]. During this program administration exercise, staff costs associated with all of the components of completing the Consolidated Plan to be assisted by any or all four CPD formula grant programs (CDBG, HOME, ESG, and HOPWA) to be identified in the Consolidated Plan and annual Action Plan may be allocated to the CDBG program as PACs. [See 24 CFR 570.205 and .206.]

4. Other types of eligible administrative staff costs

a. *Administrative expenses to facilitate housing.* Often grantees ask whether or not they can charge planning and financial administrative costs for housing to the CDBG program under 24 CFR 570.206(g). However, 24 CFR 570.206(g) refers to housing identified in a recipient's Housing Assistance Plan (the HAP), which is no longer in use and was replaced by the Consolidated Plan. Inasmuch as the Consolidated Plan includes non-housing activities, and is not exclusively limited to low- and moderate-income persons, the Department has determined that 24 CFR 570.206(g) cannot be read to substitute costs related to the Consolidated Plan for costs formerly eligible in connection with the HAP. However, if a specific activity is construed to involve a HAP-type implementing activity, the Department is willing to consider a waiver of this section of the regulations to permit the expenditure of CDBG funds for statutorily permissible planning and administrative expenses designed to facilitate housing development. The Assistant Secretary for Community Planning and Development (CPD) will make the final written determination with regard to a CPD program waiver.

b. *Activities to further fair housing.* The costs associated with the development of an analysis of impediments to fair housing and development and implementing local initiatives to affirmatively further fair housing may be allocated to the Consolidated Planning activity as program administration costs. Alternatively, certain fair housing activity costs, such as housing counseling, may be CDBG-eligible and allocable as activity delivery costs.

5. **Ineligible Costs**

General administrative affairs of government. Per Section 102(a)(21) of the HCDA and 24 CFR 570.207(a)(1), buildings or portions thereof used for the general conduct of government cannot be assisted with CDBG funds. HUD's Office of General Counsel has stated the "general administrative affairs of government" consists of overall departmental and program management and operation functions, including executive, management, and clerical functions; and purely administration function such as personnel, legal, and accounting departments.

6. **Identifying A Final Cost Objective**

In the initial stages of creating a project, there may be general administrative costs allocable as PACs; however, as the project progresses, such costs may qualify as implementing ADCs and linked to the final cost objective. This is consistent with treating costs that support the final cost objective. For example, costs identified as PACs at the onset of a project, such as preparing a request for proposal, reviewing bid proposals, and preparing contract documents, may be administrative in nature, but if such costs are part of the implementation of the activity and can be identified with a final cost objective, then allocating such staff costs as ADCs is the appropriate cost treatment.

On the other hand, a grantee must be aware of the risk associated with initiating a project that does not materialize or reach fruition and, therefore, does not meet a CDBG national objective or a final cost objective. In such cases, the incomplete activity will most likely be determined ineligible and the staff costs disallowed or possibly considered general administrative costs. When such costs are assigned as PACs, the grantee's obligations may exceed the 20 percent program administration cost limitation. Accordingly, HUD may advise the grantee to repay its CDBG program line-of-credit with non-federal funds for the amount in excess of the 20 percent cap.

Grantees must maintain adequate records and documentation in support of all costs, as set forth in 24 CFR 570.502 and 570.506, and Part 85.20, standards for financial management systems. Additionally, the grantee's records should clearly show there is a consistent treatment of like costs under similar circumstances.

There has been confusion in allocating staff costs associated with complex activities designed to operate as programs. Such activities include housing rehabilitation programs, economic development loan programs, microenterprise development programs, and homebuyer assistance programs. To be clear, housing rehabilitation administration is the only activity that has a separate IDIS matrix code that allows for the allocation of administrative costs as ADCs. This category is used to charge housing rehabilitation administration costs for all CDBG-assisted housing rehabilitation and housing rehabilitation carried out using other funding sources that meet all CDBG program requirements. For other program-type activities, general program administrative costs are treated as PACs and subject to the 20 percent cap. For this reason, grantees operating programs must use care in identifying which costs can be consistently treated as ADCs (i.e., part of delivering a final cost objective) versus those costs that are identified as general administration costs. See Table 1 below regarding the allocation of costs and HUD's

Integrated Disbursement and Information System (IDIS), Matrix Codes. The table shows eligible activities, the proper cost category, statutory and regulatory references, and the IDIS matrix codes.

Table 1 - Allocable PACs and ADCs for eligible activity program-type costs

Program	Cost Categories (PACs or ADCs)	HCD Statute	Regulation	IDIS Matrix Code
Rehabilitation - Admin. Services	ADCs	105(a)(1)	570.202(b)(9)	14H - Not Subject to the 20% cap, but included as ADCs
Types of Eligible Buildings and Improvements	ADCs	105(a)(1)	570.202(a)(1-4)	14A
HOME - Admin. Costs	PACs	105(a)(13)	570.206(i)(2)	21H - All Non-ADCs subject to 20% CDBG Cap
HOME Services Eligible under CDBG	ADCs	105(a)(20)	570 201(k)	14J
Special Economic Development Admin.	PACs	105(a)(13)	570.206	20 and 21A - All Non-ADCs subject to 20% CDBG Cap
Special ED Activity Delivery & Services	ADCs	105(a)15)	570 203(a), (b) and (c)	17A, 18A, 18B
Microenterprise Program - Admin. Costs	PACs	105(a)(13)	570.206	20 - All Non-ADCs subject to 20% CDBG Cap
Microenterprise Delivery Costs for Activities	ADCs	105(a)(23)	570 201(o)	18C
Homeownership Assistance Program Admin.	PAC	105(a)(25)	570.201(n)	20 - All Non-ADCs subject to 20% CDBG Cap
Homeownership Assistance Delivery Costs	ADCs	105(a)(23)	570.201(n)	13

PACs = Program Administration Costs
ADCs = Activity Delivery Costs

Table 2 below presents the IDIS matrix codes that may be used when charging costs to program administration.

Table 2 – IDIS Matrix Codes for Program Administration Costs

Matrix Code	Eligible Activity	Regulatory Citation
20	Planning	24 CFR 570.205
21	General Program Administration	24 CFR 570.206
21B	Indirect Costs	24 CFR 570.206
21D	Fair Housing Activities	24 CFR 570.206
21E	Submission of Applications for Federal Programs	24 CFR 570.206

B. Activity Delivery Costs (ADCs)

1. General

Activity delivery costs (ADCs) are those costs *not* subject to the 20 percent limitation for PACs. ADC staff costs are considered part of the costs for carrying out an eligible CDBG activity pursuant to 24 CFR 570.201 – 570.204. Accordingly they are treated as part of the total cost for delivering a final cost objective under the CDBG program. This is the only limiting requirement – that ADCs are incurred in order to implement and carry out specific CDBG-assisted activities. 24 CFR 570.205(a)(4)(iii) affirms this as it states, "…engineering and design costs related to a specific activity… are eligible as part of the cost of such activity under 570.201-570.204."

At times the initial costs for an eligible CDBG activity may be treated as administrative costs; however, in the activity's final accounting, it may be more appropriate to treat these costs as ADCs. Generally, for example, staff costs for performing environmental reviews or housing relocation work are considered part of the total ADCs associated with the underlying CDBG-assisted activity. At times, incurring up-front costs may appear PACs in nature, but upon completion of the activity these costs can re-allocated as ADCs. As an example, if staff time spent for preparing and issuing a request for proposals (RFP) for multifamily housing rehabilitation, reviewing and selecting bids, and preparing contract documents and notices to proceed can be identified as part of the final cost objective, then allocating these costs as ADCs is the appropriate cost treatment for those properties that proceed to completion and occupancy.

Notwithstanding, there is risk in allocating costs in this manner. Where an activity is not completed, or the activity does not meet a CDBG national objective, the up-front costs must be allocated as PACs because they cannot be associated with achieving a final cost objective. In such cases where this would result in obligations or expenditures exceeding a grantee's 20 percent program administration cap, HUD may advise the grantee to repay its CDBG program for any amount above the cap with non-federal funds. In the above example, staff time spent reviewing proposals for multifamily housing rehabilitation projects that do not proceed to completion cannot be charged as ADCs, as there is no funded activity (and no final cost objective) to charge them to.

It is important to recognize that staff time allocable as ADCs represents the actual time spent on implementing and completing an eligible CDBG activity. For example, staff time for a housing rehabilitation specialist, whose duties are to make home inspections, prepare work write-ups, and inspect projects through completion, would be 100 percent allocable as rehabilitation activity delivery costs. However, circumstances may require that the project incurs other staff costs for personnel that spend less than 100 percent of their time working for the rehabilitation program. For example, a project may need a city engineer to approve, inspect, and sign off on integral structural improvement. Hence, the engineer's staff-time can be prorated and allocable as ADCs in support of the final cost objective.

As another example, perhaps a project calls for the temporary relocation of a household while the removal of lead-based paint is performed for a housing rehabilitation project. Staff costs for those carrying out the relocation portion of activity could be considered part of the

ADCs for the housing rehabilitation activity as a whole. (See also the IDIS Matrix Code 14H definition regarding housing rehabilitation administration as activity delivery costs.)

CDBG funds may be used for ADCs in conjunction with other CPD formula grant activities (e.g., assisted with HOME, ESG, or HOPWA) where the activity is otherwise CDBG eligible and meets a national objective. But, because the activity is assisted in whole or in part with CDBG, it is subject to all CDBG rules and federal requirements in addition to those rules of the other grant programs. As stated above, however, this does provide for the use of CDBG funds for general PACs associated with the other formula programs.

2. Costs in support of the HOME Program

Generally, new construction housing is an ineligible CDBG activity as set forth at 24 CFR 570.207. However, the use of CDBG in the support of HOME-assisted projects has been eligible since the enactment of CDBG statutory amendments made in 1992. Initially, the use of CDBG with HOME funds was subject to CDBG's 20 percent limit on general program administration. Subsequent statutory amendments removed this restriction. Section 105(a)(20) of the HCDA states that CDBG funds may be used to pay for housing services in support of HOME-assisted projects. This provision is codified in the CDBG regulations at 24 CFR 570.201(k).

Thus, while the use of CDBG for HOME program administration costs remained eligible under 24 CFR 570.206(g), it was clarified at 24 CFR 570.201(k) that the use of CDBG funds is an eligible use in support of a HOME-assisted project. The overall intent of this change was to provide for a broad array CDBG uses in support of HOME-assisted projects. The statute and 24 CFR 570.201(k) refers to CDBG eligible ADCs for HOME under the term "housing services." Housing services are eligible under 24 CFR 570.201(k). Eligible CDBG-HOME housing services include such things as housing counseling and tenant-based rental assistance, energy auditing, work specifications and architectural plans, loan processing, tenant selection, and other services related to assisting owners, tenants, third party entities participating or seeking to participate in a HOME project.

Please note, however, that the eligibility and benefit requirements of the CDBG and HOME programs differ in that the HOME term "project"" and the CDBG term "activity" are not synonymous, and that care should be exercised in management and documentation when blending the two sources of funds on one activities.

3. Public Service Costs

Staff costs for carrying out public services associated with another CPD program are also eligible providing that public service is eligible and meets a national objective. As an example, for a nonprofit organization providing health services to homeless persons or persons with AIDS, payment of the employee's salary delivering the services (rather than an Executive Director or Chief Operating Officer) would be eligible as part of carrying out the underlying public service. The provision of health services is a CDBG-eligible public service activity under Section 105(a)(8) and 24 CFR 570.201(e). Therefore the grantee may use CDBG funds to pay the employee's salary that is carrying out the public service as an ADC, providing the non-profit meet the compliance requirements under the public service provision and the CDBG program in general. That is to say, if the activity is a new public service or a quantifiable increase in the level of an existing public service, staff costs allocable to CDBG are limited by the grantee's overall 15 percent public service cap.

[Note: Public service expenditures are limited to not more than 15 percent of a grantee's annual CDBG allocation plus 15 percent of their prior year's program income. This requirement is statutory under Section 105(a)(8) of the HCDA.]

IV. DIRECT AND INDIRECT COSTS

There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to a certain service or function, but indirect with respect to the Federal award or other final cost objective. Thus, certain indirect costs may be allocable as part of carrying out an eligible CDBG activity, such as housing rehabilitation, and appropriately identified and treated as ADCs. General guidelines for determining direct and indirect costs charged to Federal awards are provided at 2 CFR 225 (formerly OMB Circular A-87). A brief discussion of these costs categories follows.

Direct costs are those that can be identified specifically with a particular final cost objective. Typical direct costs chargeable to Federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards;
b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards;
c. Equipment and other approved capital expenditures;
d. Travel expenses incurred specifically to carry out the award;

Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

Indirect costs are those incurred for a common or joint purpose and benefiting more than one cost objective. They are not readily assignable to the cost objective specifically benefitting from the award without effort disproportionate to the results achieved. The term ''indirect costs,'' as used by OMB, applies to costs that originate in the grantee's CDBG department and other departments that supply goods, services, and facilities for carrying out the CDBG program. Indirect costs examples are as follows:

a. Central services costs, such as motor pools, computer centers, accounting office space leases, telephone service, utility bills, copy machines, etc.;
b. Internal service costs, such as personnel, general administration, and purchasing;
c. Legal costs and self-insurance costs; and
d. Fringe benefit costs, such as pensions and health insurance.

In addition to restrictions contained in 2 CFR Part 225, there may be state or local laws that further limit the amount of administrative or indirect cost allowed. Moreover, amounts not recoverable as indirect costs or administrative costs allocable to one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

V. OTHER FINANCIAL MANAGEMENT REQUIREMENTS

1. General

The Office of Management and Budget (OMB) establishes cost principles to establish a uniform approach for determining costs to ensure effective and efficient program delivery. The most applicable sections to the CDBG program are the following: OMB Circular A-87 [relocated to 2 CFR Part 225], which contains the Cost Principles for State, Local and Indian Tribe Governments; and OMB Circular A-122 [relocated to 2 CFR Part 230], which contains the Cost Principles for Nonprofit Organizations. These cost principles are incorporated into the CDBG regulations by reference, but most substantially at 24 CFR 570.500 – 505.

The OMB basic guidelines apply to all federal agencies and address the following cost categories: allocable and allowable, reasonable costs, cost composition as a direct or indirect cost, and the treatment of applicable credits or offsetting costs. Accordingly, these principles effect the allocation of allowable staff costs to general administration activities or otherwise CDBG-eligible activity costs that are associated with a final cost objective. Generally, OMB advises that costs be accorded consistent treatment in order to enhance the likelihood that comparable costs are treated similarly in the application of cost accounting practices. OMB also advises that a cost may *not* be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. Attachment D provides paraphrased excerpts from OMB's Cost Principles.

2. Applicable Credits

In general, applicable credits reduce the net amount of CDBG funds necessary to carry out an eligible CDBG activity (see 2 CFR part 225, Appendices A). Applicable credits refer to receipts or reductions of expenditure-type transactions that offset or reduce a cost item that is allocable to a Federal award as either a direct or indirect cost. To the extent that such offsets or credits are received by the governmental unit, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate. Examples of transactions that generate applicable credits are the following:

- The collection of loan application fees associated with provisions of financial assistance to rehabilitate privately-owned multifamily housing [24 CFR 570.202]. Such fees are often collected to assure the applicant's commitment to providing the necessary underwriting and compliance documentation for the project;

- The collection of loan application fees for provisions of financial assistance to for-profit businesses [economic development activities at 24 CFR 570.203(b)]. Such fees are collected to assure a commitment from the applicant/borrower to provide documentation necessary for the grantee to conduct a prudent financial underwriting; and,

- Taking advantage of purchase discounts, rebates, or allowances, and accounting for adjustments for overpayments or erroneous charges associated with an eligible activity.

- Code enforcement fines, but only if (1) the cost of the code inspections and enforcement and/or the inspectors' salaries must have been wholly or partially paid for with CDBG funds, and (2) the intended purpose of the code enforcement fine (as reflected in local law, handbook, manual, etc.) is to recover the costs incurred for the code enforcement activities without regard to the source of funds for payment of the code enforcement activity.

VI. CONCLUSION

Table 3 presents a snapshot of the relationships among costs. Appendix A provides instructions on how to calculate the amount that may be used for PACs for Entitlements. Appendix B provides a Functional Staff Cost Model. Appendix C provides the OMB Cost Definitions and Guidelines. Additional guidance may also be found in The CDBG Guide to National Objectives and Eligible Activities, located on the web at: http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_17133.pdf. Questions regarding this Notice should be directed to your local HUD Field Office.

Table 3 – Relationships Among Costs

APPENDIX A

Program Administration Cap Calculation for Entitlements

Description

Not more than 20 percent of the sum of any grant plus program income that is received during the program year may be obligated by the grantee and its subrecipients for program administration costs, as defined in §570.205 and §570.206, respectively. Recipients of entitlement grants will be considered to be in conformance with this limitation if total obligations charged under those categories during the grantee's most recently completed program year, without regard to the source year of funds, are not greater than 20% of the sum of the entitlement grant received for that program year plus the program income received during that program year by the grantee and its subrecipients. [References: Appropriation Acts and §570.200(g)]

Calculating the Cap

To determine the base against which the 20% cap will be applied, total the amount of CDBG funds *received during the program year* from the following sources:

Step 1

(1) Entitlement Grant (from line 8.b of the Funding Approval form, HUD-7082): $ ___________

(2) Surplus from Urban Renewal (from line 10.b of the Funding Approval form): $ ___________

(3) Program income received by the grantee and its Subrecipients: $ ___________

(4) **TOTAL** $ ___________

Step 2

(1) To calculate the **cap** amount, *multiply* the total amount determined in line (4) above by 0.20 and enter the number here: $ ___________

This amount represents **the cap**; it is the maximum dollar amount that may be obligated during the program year and charged to the eligible categories of program administration, §570.205 and §570.206, respectively**.**

Determining Compliance with the Cap

Step 3

Compliance with the cap is determined for entitlement grantees by performing the calculation below at the end of each program year, as follows:

(1) Determine the total amount of CDBG funds expended *during the program year* for activities that are classified as eligible under §570.205 (Planning and Capacity Building) and §570.206 (Program Administration Costs): $____________

(2) *Add* to the above amount the total amount of unliquidated obligations for activities under these same two categories, *as of the end of the program year*: $____________

(3) *Subtract* from the balance the total amount of unliquidated obligations for these two categories, as of the *end of the preceding program year*: $(__________)

(4) *Enter* here the result of the above calculations. This is the amount of net obligations for Program Administration during the program year: $____________

To be in compliance with the 20% cap, the amount determined above, as the net amount obligated, may not exceed the amount determined as the cap in Line for the year in the first portion of this subsection (see *Step 2* above).

Net amount obligated Line (4) above: $______________
Cannot be greater than the cap: $______________

APPENDIX B

Functional Staff-Cost Model

HOUSING REHABILITATION PROGRAM		ALLOCABLE STAFF COSTS	
Staff Organization	**Staff Function**	**Program Administration Costs** (24 CFR 570.205-206 and 570.489(a))	**Activity Delivery Costs** (24 CFR 570.201-204)
Grantee's CDBG Program Management	To administer, plan, and carry out a CDBG-assisted community development program and related activities	General management of personnel tasked with oversight and coordination, monitoring and evaluation, reporting and audit compliance	When time is spent on the implementation of a specific CDBG-eligible activity
Division/Program Director	To oversee Support Staff and Line Staff in carrying out CDBG-funded eligible activities or program(s) as identified in the grantee's consolidated plan	General administration and program management of financial requirements, program- and activity-related staff, and overall activity implementation and outcome evaluation	Time spent carrying out specific CDBG-eligible activity work, such as conducting the environmental review, administering Davis-Bacon requirements, or overseeing relocation benefits
Unit of General Local Government (UGLG) or Subrecipient Staff	To carry out CDBG-funded projects and activities located in their jurisdiction as an urban county participant, or under a subrecipient agreement	General UGLG administration, financial requirements, reports, documentation and compliance records, monitoring and oversight	All project-related implementation activities per a written agreement between the grantee and UGLG, or subrecipient
Project Managers	To oversee Line Staff and Support Staff in the implementation and carrying out of eligible CDBG-funded projects and activities	General administration duties for program management, program planning and analysis, reporting, monitoring and evaluation	Oversee day-to-day specific CDBG-eligible activities: Underwriting loans, reviewing construction progress, processing contractor invoices, approving change orders
Support Staff	To carry out general capacities for program management, oversight, and coordination of the grantee's CDBG program	General administrative and planning, analysis, reports, program monitoring and evaluation, and audit compliance	Preparing contracts, loan documentation, processing contractor payments, loan repayments, recording liens and notices of completion
Line Staff	To carry out the implementation of CDBG-funded projects and activities	Planning and analysis, reports, program monitoring and evaluation, and audit compliance	Perform specific CDBG-eligible activity implementation work: loan processing, construction progress inspections, contractor payments, change order initiation
Contractor	To perform for compensation with regard to implementing and completing a CDBG-funded project on behalf of the grantee, UGLG, or subrecipient	N/A	Perform in accordance with a written contract between the grantee, unit of local government, subrecipient, or homeowner
Homeowner	To receive the benefits of a CDBG-assisted activity	N/A	N/A

APPENDIX C

OMB COST DEFINITIONS AND GUIDELINES

The terms and definitions provided below are derived from the Office of Management and Budget (OMB), which establishes principles and standards to provide a uniform approach for determining allocable and allowable costs to promote effective program delivery and efficiency. Heretofore, OMB guidance was set forth in Circular A–87, ''Cost Principles for State, Local, and Indian Tribal Governments.'' However, A-87 has recently been relocated to the federal regulations at 2 CFR Part 225. This was part of an initiative to provide the public with a central location for Federal government policies on grants and other financial assistance and non-procurement agreements (See website link below.) These definitions have been paraphrased to reflect relevant terms used for identifying and treating allowable costs applicable to the CDBG program. For the precise language that applies to any aspect, please go the following OMB website:

http://www.whitehouse.gov/sites/default/files/omb/assets/omb/fedreg/2005/083105_a87.pdf

DEFINITIONS

1. *Cost* means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.
2. *Cost objective* means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.
3. *Final cost objective* means a cost objective, that has allocated to it both direct and indirect costs and is a final accumulation point. For example, this could be an eligible CDBG activity of rehabilitating a single-family dwelling that upon completion will meet a low- and moderate-income household national objective.
4. *Allocate* means to assign an item of cost or a group of items of cost, to one or more cost objectives, such as an eligible CDBG activity. This term includes both direct assignment of cost and the reassignment of a share of costs from an indirect cost pool, such as accounting services applicable to overall program PACS.
5. *Allocable costs*.
   a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
   b. All activities which benefit from the governmental unit's indirect cost, including unallowable <u>activities,</u> will receive an appropriate allocation of indirect costs.
   c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR Part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.
   d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.
6. *Allowable costs*. To be allowable under Federal awards, costs must meet several general criteria among them which are the following:
   a. Be necessary and reasonable for proper and efficient performance and administration of the Federal award.
   b. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
   c. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
   d. Be adequately documented.

7. *Reasonable costs.* A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
   a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
   b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award. All activities which benefit from the governmental unit's indirect cost, <u>including unallowable activities</u>, will receive an appropriate allocation of indirect costs.
8. *Applicable credits.* Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: Purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or a cash refund, as appropriate.

Cost Composition

9. *Total cost.* The total cost of Federal awards is comprised of the allowable direct cost to the CDBG program, plus its allocable portion of allowable indirect costs, less applicable credits.
10. *Classification of costs.* There is no universal rule for classifying certain costs as either *direct or indirect* under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal awards are provided in the section 2 CFR 225.

Direct Costs

11. *Direct costs* are generally those that can be identified specifically with a particular final cost objective. Examples of direct costs chargeable to Federal awards are:
    a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
    b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
    c. Equipment and other approved capital expenditures.
    d. Travel expenses incurred specifically to carry out the award.
12. *Minor items*. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

Indirect Costs

13. *Indirect costs* are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term ''indirect costs,'' applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.
14. *Cost allocation plans and indirect cost proposals*. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to 2 CFR Part 225.
15. *Limitation on indirect or administrative costs*.

a. In addition to restrictions contained in 2 CFR Part 225, there may be laws that further limit the amount of administrative or indirect cost allowed.
b. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

16. *Interagency Services.* The cost of services provided by one agency to another.

CDBG Entitlement FAQ

Q

What happens when a business assisted with CDBG funds fails to create the number of jobs expected or the business closes?

Date Published: May 2015

ShareThis

A

If the business is unable to create the number of jobs they were expected to (or if the business closed) a finding must be made that the grantee failed to meet a national objective and, as a result, HUD may advise them to repay their CDBG line of credit. The funds repaid to the line of credit will be credited to the original activity and zero out the draws. Otherwise, the grantee may subsequently cancel the activity. However, if the local HUD field office agrees that the grantee has exercised due diligence in managing this activity, then the field office may allow the grantee to cancel this activity with draws.

If the economic development activity is eligible, the public benefit standards apply. A job filled is a job that counts toward the public benefit standards. 24 CFR 570.209(d) addresses the actions HUD may take if the public benefit standards are not met as projected. Conversely, if the activity is deemed ineligible, the public benefit standards do not really matter except as for the ability of the grantee to do due diligence in its underwriting capacity. The grantee is also responsible for repayment of CDBG funds with non-federal funds. However, the grantee is always allowed to pursue repayment from the assisted business.

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Tags: CDBG Entitlement Program | Economic Development

FAQ ID:
2230

CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF DEVELOPMENT AND GRANTS

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October 27, 2020

Ellen Ha
Inspector General, City of Detroit
65 Cadillac Square, Suite 3210
Detroit, MI 48226

RE: OIG Case No. 19-0018-INV

Dear Ms. Ha,

I write in reply to the OIG's letter of October 20, regarding my response to the Draft Report in Case No. 19-0018, "Motor City Match Investigation."

First, you asked for a "copy of [the Economic Growth Corporation (EDC)'s] response" to the Housing and Revitalization Department's default letter related to missing program costs. As requested, please find attached the DEGC's response, dated May 11, 2020, to HRD's Notice of Default Letter (Attachment A). Both parties subsequently agreed that with the overwhelming amount of information being shared, that HRD and the Economic Development Corporation (EDC) would continue to work together and the review would continue to move forward for all of these invoices for eligibility.

Second, you asked for a "detailed explanation of how those funds were later reported to HRD." HRD notified HUD verbally in the spring of 2020 that additional costs were inadvertently left out of the original review due to confusion between various reports submitted by EDC, and that a default letter was issued to the EDC as soon as those omitted costs were drawn to our attention (in part as a result of OIG's review). HRD asked HUD that HRD be allowed to update and resubmit the information. On October 1, HRD notified HUD that additional PSI, Inc. costs have been reconciled and included in the updated draft Summary sent on that date.

HRD met with HUD on October 14, 2020 for a regular scheduled check-in meeting; HRD and HUD agreed at this time to reconcile all CDBG costs drawn to date. HRD will be submitting that report in the coming weeks as final reviews take place for any missing invoices under review- as well as expenses incurred after December 2018. HRD will account for all $9.4M drawn in IDIS for the Motor City Match program and submit to HUD. An updated summary shared with HUD is attached for OIG, as there have been updates since the last submission to OIG (Attachment B).

Regarding the interactions between HRD and the OIG regarding these costs, I am aware that the OIG brought to HRD's attention on April 29, 2020 that costs were omitted for PSI, Inc along with

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additional vendors. Per my understanding, HRD acknowledged that those costs had been omitted, and (as the correspondence provided indicates) promptly contacted EDC to understand what those costs were and how this happened. On May 14, 2020 HRD notified OIG that they were still reviewing those costs. HRD did not, however, understand from OIG that it needed to provide anything more than an update at that time. As a result of COVID-19, staff furloughs and delays from both HRD and HUD, further updates were given to OIG more recently.

For a program like Motor City Match, which has produced extensive documentation over its operation, it is typical that an audit process may be lengthy and involve multiple interactions between the department and the funder to arrive at a common understanding of issues and their resolution. I do not believe HRD was intentionally non-communicative, and certainly HRD did not intend to give the impression that the audit process with HUD regarding Motor City Match was complete.

Sincerely,

katerli bounds

Katerli Bounds
Deputy Chief Financial Officer, Office of Development and Grants

CC: Arthur Jemison, Group Executive for Housing, Planning and Development
Donald Rencher, Director – Housing & Revitalization Department

EDC
CITY OF DETROIT
ECONOMIC DEVELOPMENT CORPORATION
500 Griswold, Suite 2200
Detroit, MI 48226

May 11, 2020

Donald Rencher
Director, Department of Housing and Revitalization
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 908
Detroit, MI 48226

Dear Donald,

This letter is in response to that certain letter addressed to the Economic Development Corporation of the City of the Detroit ("EDC") dated May 1, 2020 (received by the undersigned on May 6, 2020), entitled "NOTICE OF DEFAULT-CONTRACT 60000226" (the "HRD Letter"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the HRD Letter.

Thank you for bringing to our attention that information relating to certain vendors of the Programs (i.e., Professional Service Industries, Inc. (PSI), Inland Press, ARC, and Creative Differences Marketing) was unaccounted for in the reconciliation of the Program financials that was undertaken by EDC, HRD, and the City's Office of the Chief Financial Officer ("OCFO") from July, 2019 – March, 2020. We appreciate the opportunity to review this matter with HRD, correct any discrepancies, and work with HRD to implement corrective measures in order to prevent similar discrepancies in the future.

Further, we trust that the analysis provided below is adequate to justify that although certain information provided by the EDC may have been miscommunicated and/or mischaracterized, the EDC strongly disagrees that there were any issues that rose to the level of default. In fact, upon being notified of alleged data discrepancies, EDC was fully cooperative in providing the City of Detroit with pathways to finding the Program data that the City needed, but thought was missing.

As you are aware, in order to assist HRD and OCFO respond to certain findings by the Department of Housing and Urban Development ("HUD") relating to the Programs, EDC provided requested documentation consisting of over 5,700 documents to a designated portal and has responded to numerous formal and informal City requests for Program documentation. The documentation was used to present a reconciliation of HUD funding for the Programs, including over 1,300 invoice packets that were reassembled to HUD's updated specifications. We acknowledge that sorting through some of this data can be confusing and we have made our full small business staff available for interviews, meetings and conferences to assist in getting the City the information it needs. However, formatting such information in a way that works best for the City's reporting to HUD has been challenging.

Based upon our initial review of the documents specified in the HRD Letter and other documentation provided by EDC, it appears that information relating to the four identified vendors was provided among the thousands of documents provided by the EDC; however it may have been: (1) miscategorized, (2) missing from some reports, but included in others, or (3) available in documents on file that the City was not paying particular attention to. As a result, such information may have been inadvertently omitted from the above-described invoice packet reassembly and financial reconciliation process.

In particular, we have made the following preliminary findings:

1. As you are aware, each round of the Motor City Match Program included "business" awardees and "building" awardees. PSI was a "technical assistance" vendor that provided building condition assessments and/or environmental assessments primarily for "building" awardees from the inception of the Motor City Match Program until 2018. With respect to the July 10, 2019 spreadsheet, we note that this spreadsheet provides instructions for a "Remastered MCM Invoice Package Process" which are tailored primarily to business awardees. Included in the spreadsheet, there is a tab for "Biz Master List" which includes only business awardees. On July 12, 2019, EDC provided to HRD a spreadsheet which consists of the tab for "Biz Master List" included in the July 10, 2019 email AND an additional tab entitled "Building Master List". (**See Attachment A**). It appears that the July 10, 2019 spreadsheet and instructions were not updated or replicated to incorporate the July 12, 2019 "building awardee" list, which may have contributed to the omission of invoices from PSI from the repackaged invoices.

2. With respect to the spreadsheet provided on July 16, 2019 relating to "technical assistance", this spreadsheet is a detailed listing of technical assistance providers with which the EDC entered into a three-party agreement between the EDC, the technical assistance vendor and the awardee. This three-party contract system was adopted at or near the inception of the Program to ensure that the technical assistance funding was actually used for the awarded technical assistance and that the vendors, many of which are Detroit-based small businesses themselves, received payment. However, for certain forms of "technical assistance", in particular where one vendor was procured to provide the same service at a fixed rate to awardees, the EDC opted to enter into a master agreement directly with the vendors and to make the technical assistance available to the awardee through work order or other mechanism. This form of agreement was used for many of the business plan providers and for PSI. (**See PSI's contracts attached as Attachments B-1 and B-2**) It appears that the spreadsheet provided inadvertently omitted the technical assistance providers that held direct two-party contracts with EDC, which may have contributed to the omission of invoices from PSI from the repackaged invoices.

3. With respect to the spreadsheet provided on August 18, 2019, that spreadsheet was provided in response to the August 16, 2019 email from Lindsay Wallace of HRD with the subject line "Questions - on Fringe Rate and Itemization of Administrative Contracts request" (emphasis added) requesting the following: "We also need a spreadsheet that

identifies the total dollar amount that has been spent on all companies/firms that were procured *for the administration of MCM (only CDBG)*. (emphasis added) This would be Hennessey, Clark Hill, Mort Crim, etc..." The spreadsheet was provided by Glen Long on August 18, 2019, with the following caveat "Your question did not detail every vendor, so hopefully I got them all." This spreadsheet did not include every vendor paid under the Programs; rather, this spreadsheet was intended to be responsive to the specific inquiry for "administrative costs". As a technical assistance vendor, PSI would not have been included in this list. Vendors ARC, Inland Press, and Creative Differences Marketing primarily provided collateral printing services, signage services, and videography and photography services for the Program website, respectively. They are relatively minor vendors compared to the administrative vendors enumerated in Ms. Wallace's request and included in the spreadsheet. To the extent that these vendors fall into the "administrative contracts" category that the inquiry was seeking, their omission from the spreadsheet was unintentional. It should be noted that on July 17, 2019, at HRD's request, Mr. Long had previously provided a full spreadsheet of all payments and receipts under the Programs, including payments to each of PSI, Creative Differences Marketing, Inland Press and ARC Document Solutions (aka ARC). (**See Attachment C**) In the event that the August 18, 2019 spreadsheet was used to cross reference invoice packages or reconcile other Program financials relating to administrative costs, because this was not a comprehensive listing, it may have contributed to the omission of invoices from PSI and the other vendors from the repackaged invoices and/or reconciliation.

Given the volume of records relating to the Programs and the complexity of the Programs and the review undertaken by HRD and OCFO of the Programs in or around July and August 2019, the above-analysis is based only upon a cursory review of the referenced documents and other Program records relating to the four identified vendors. We reserve the right to update our response as we conduct a further review of the documentation to identify the information the City needs with respect to the issues raised. Furthermore, based on the foregoing analysis, coupled with the EDC's consistent and continued cooperation and transparency in connection with formal and informal reviews of the Program conducted by HRD, OCFO, the City of Detroit's Office of the Inspector General ("OIG"), we strongly disagree with any assertion that any actions or omissions by EDC with respect to these matters give rise to a default in its performance of the Agreement. Accordingly, EDC expressly disclaims any alleged default or omission under the Agreement as the HRD Letter might otherwise imply.

Nonetheless, we appreciate the opportunity to continue to review this matter with HRD and to continue to assist in a further reconciliation of the Program costs. In this vein, we want to point out that our records indicate that a total of $**2,044,127.63** in Program costs were paid to the referenced vendors from the inception of the Programs through June 30, 2019, as further set forth below:

ARC	11,373.14
Creative Differences Marketing	65,625.00
Inland Press	39,049.49
Professional Service Industries (PSI)	1,928,080.00
	2,044,127.63

Please know that the EDC remains fully committed to the Programs and to the vital assistance the EDC provides to the small business community in the City of Detroit. Motor City Match was created in 2015 to help address a fundamental challenge to many small businesses in Detroit: finding the right space for the business and filling financial gaps for launching the business. The overarching goal for the program is to help start new, permanent businesses in Detroit's neighborhood commercial corridors outside the City core by providing assistance throughout the business start-up and building renovation process. Launched in 2017, Motor City Re-Store gives Detroit's neighborhood businesses a boost in curb appeal through matching grants that improve their storefronts, making Detroit's commercial corridors more walkable, more attractive, and better for business.

Collectively, the Programs have assisted over 1,600 businesses and building owners looking to open a business in Detroit or improve an existing business location in Detroit. As of March 2020, Motor City Match had resulted in 105 open brick and mortar businesses, over 200 home-based businesses, and 57 businesses under construction over the lifespan of the program, with 64% of the awardees being Detroit resident owned businesses. In addition, minority and women owned businesses comprise 81% of the overall awardees and 71% of the overall awardees, respectively. After nine rounds of Motor City Re-Store, a total of 204 businesses have been awarded grants for exterior improvements. Across all rounds, 49% of awardees were Detroit resident-owned businesses, 59% were minority-owned businesses, and 30% were women owned. The average age of the awarded businesses is 20 years old.

We look forward to continued partnership with the City of Detroit and HRD in our collective efforts to support Detroit's small business community and, in particular, to keep small businesses alive and thriving during these challenging times. Further, we remain at your disposal to assist with the resolution of the above-described matters, including responding to any findings or inquiries from HUD or OIG relating to the Programs, reconciling any discrepancies, and adopting corrective measures to avoid future discrepancies.

Please do not hesitate to contact me should you have any questions.

Sincerely,

Kevin D. Johnson
Authorized Agent, EDC
President and CEO, Detroit Economic Growth Corporation

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December 21, 2020

Ellen Ha
Inspector General, City of Detroit
65 Cadillac Square, Suite 3210
Detroit, MI 48226

RE: OIG Case No. 19-0018-INV

Dear Ms. Ha:

I write in reply to the OIG's letter of December 17, regarding case no. 19-0018-INV pertaining to Motor City Match Program.

I recognize that the OIG must complete a report by January 4th, 2021, in accordance with the Administrative Hearing Rules. I continue to recommend that the OIG finalize an *interim* report for that date, identifying its questions and concerns without making findings, as the Housing and Urban Development ("HUD") audit is still underway. Finalizing an interim report would satisfy the Administrative Hearings Rules, while also allowing the OIG to review the final determination made by HUD and incorporate the final determination of the federal agency with ultimate authority over the program into any findings.

The "additional findings" referenced in your letter are a good case-in-point for the challenges inherent in conducting an OIG investigation concurrently with an open audit. Listed below are my responses to your specific concerns and bullet points [bold indicates a direct quote from your letter]. Please do not hesitate to reach out to my office, or to the Housing Revitalization Department ("HRD"), for clarification on any information provided below.

In reviewing the draw report from HUD for the programs, which was just recently provided to me, it appears that four of the draws did not have corresponding invoices. The invoices were requested from the DEGC on November 24, 2020, after we received your written response. However, after many attempts to secure the documents, we did not receive a response from DEGC until Tuesday, December 15, 2020. In their response, DEGC provided one additional invoice but had no record for the other amounts. Without the corresponding invoices, the report will show the draws were unsupported. In particular, we have questions concerning the following draws from HUD:

1. **Voucher No. 5838117 from 8/13/2015 totaling $116,791.45**
2. **Voucher No. 5838119 from 8/13/2015 totaling $54,541.73**
3. **Voucher No. 5474886 from 12/8/2015 totaling $77,281.32**

Since the last submission to HUD on 10/14/2020, HRD and HUD have discussed final reconciliations. This includes a completed reconciliation of the PR07 report provided by HUD on 9/4/2020. For reference, the PR07 report details every drawdown that was completed and approved in the HUD LOCCS

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system. More specifically, the PR07 includes all of the completed draws for small business/economic development activities beginning 5/12/2015 through 3/18/2019. It was the responsibility of HRD to review and make sure that all were for the Motor City Match Program.

As a result of the PR07 reconciliation, HRD has confirmed the following draws were NOT for the Motor City Match Program and confirmed that the draws were a result of a different subrecipient contract:

- Voucher No. 5838117 from 8/13/2015 totaling $116,791.45
- Voucher No. 5838119 from 8/13/2015 totaling $54,541.73
- Voucher No. 5474886 from 12/8/2015 totaling $77,281.32

HRD notified HUD on 12/14/2020 via email (Attachments A and B) when it submitted an update to HUD for discussion.

The OIG found costs previously disallowed by HRD were included in the program reconciliation. Copies of the deficiency letters are attached. This presents a concern that expenses that were not paid with HUD funds are being used to justify the draws.

This has been corrected as part of the audit process. No non-CDBG costs have been used to justify draws in the reconciliation. The following is a specific response to the deficiency letters identified.

1. The disallowed letter dated May 1, 2017 for the payment request of March 01, 2017 – March 31, 2017 in the amount of $684.20. In the letter HRD originally identified this line item as being ineligible due to the calculation being used by DEGC in the reimbursement packet. However, during the reconciliation process, HRD used actual costs for DEGC staff time (2 CFR 200.430). Per our previous response to the OIG, the staff time was originally calculated inaccurately by DEGC. Therefore, the disallowed costs referenced did not influence HRD's review.

2. The disallowed letter dated on June 15, 2018 for the payment request for April 01, 2018 – April 30, 2018 indicates that there was a deficiency in the amount of $111,533.75. At the time the deficiency letter was written, it stated that the reason for the deficiencies cited were due to goods and services being rendered prior to the start date of the contract. After subsequent review of this information, it appears that the original assessment of the cited deficiencies was inaccurate. In fact, these expenses should have been allowed - however, there was an error in the purchase order showing that the term of the contract was to begin on January 01, 2018. The contract being referenced had already begun in 2014; therefore, the letter sent to the DEGC was inaccurate. The City does acknowledge this was inadvertently overlooked when reconciling. The Program Summary has since been updated (12/18/20) to take out each cost that totals to $111,533.75. See attached for your review, and the email to HUD acknowledging the update.

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3. The disallowed letter dated on May 31, 2018 is duplicative. The line item referenced in the letter is already included in the April 01, 2018 – April 30, 2018 disallowed letter that was sent to the DEGC.

Both HUD and HRD have subject matter experts that have been working collaboratively on resolving this complex audit for over 2 years. My recommendation continues to be that the OIG issue an interim report, and to wait until the HUD audit is complete to issue a final report, stems from concern that the OIG may reach a conclusion that may be proven incorrect, or founded in inadvertent use of out-of-date information, and not in line with HUD's ultimate determinations. Confusing or conflicting views between OIG and the City may also create confusion and delay in obtaining a consensus with HUD.

I appreciate your diligence in this matter.

Sincerely,

Katerli Bounds
Deputy Chief Financial Officer, Office of Development and Grants

Attachments:
- A: HRD email to HUD on 12/14/20 re: PRO7 Reconciliation
- B: 12/14/20 Email Attachments

CC: Arthur Jemison, Group Executive for Housing, Planning and Development
Donald Rencher, Director – Housing & Revitalization Department

Katerli Bounds

From: Nicole Wyse <roddenbowenn@detroitmi.gov>
Sent: Friday, December 18, 2020 7:16 PM
To: 'Vails Cynthia C (cynthia.c.vails@hud.gov)'; 'Kathy F Bagley (kathy.f.bagley@hud.gov)'
Cc: 'Mark F Sorbo (mark.f.sorbo@hud.gov)'; Lindsay Wallace
Subject: RE: Follow Up Meeting Request
Attachments: Copy of MCM MCR Program Summary DRAFT (12.18.20).xlsx

Good Evening HUD Team,

Attached is the updated version for our discussion. We inadvertently did not include in the reconciliation dated 12/14/20 costs previously disallowed by HRD. They have now been removed.

Looking forward to meeting with you all, stay safe! I am officially signing off and not bugging anyone until 2021. Happy Holidays and Stay Safe!

Nicole

Nicole Wyse (formerly Rodden-Bowen)
Associate Director, Community Development
City of Detroit
Housing and Revitalization Department
2 Woodward Ave. Suite 908
Detroit, MI 48226
Ph: 313-224-4159
roddenbowenn@detroitmi.gov

From: Nicole Wyse
Sent: Monday, December 14, 2020 12:57 PM
To: 'Vails Cynthia C (cynthia.c.vails@hud.gov)' <cynthia.c.vails@hud.gov>; 'Kathy F Bagley (kathy.f.bagley@hud.gov)' <kathy.f.bagley@hud.gov>
Cc: 'Mark F Sorbo (mark.f.sorbo@hud.gov)' <mark.f.sorbo@hud.gov>; Lindsay Wallace (wallacel@detroitmi.gov) <wallacel@detroitmi.gov>
Subject: Follow Up Meeting Request

Good Afternoon Cindy, Kathy and Mark,

Attached is an updated MCM reconciliation worksheet. We would like to schedule some time with you all, maybe when we all get back from the holiday, to go through everything with you.

One thing I wanted to point out is we went in and reconciled the PR07 report against DEGC accounting records and the City of Detroit's accounting records we found a few draws that were not MCM (they were for the Invest Detroit Foundation, which I am not familiar with, as this took place in 2014-2015) –

- Voucher ID #5838117 $116,791.45
- Voucher ID #5838119 54,541.73
- Voucher ID #5874886 $77,281.31

You can find this reconciliation in the IDIS to invoice tab in the worksheet. This brings the total amount drawn for MCM to $9,163,814.76 which is what is reflected in the worksheet.

Thanks for your patience with this, we received some additional staffing resources in the past 45 days that helped us do a once over again of the information to make sure it is accurate and to ensure ease of your review.

Looking forward to talking with you all, Happy Holidays!

Nicole Wyse (formerly Rodden-Bowen)
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