



City of Chattanooga

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

February 10, 2012

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Home Repair Assistance Programs, Audit 11-12

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Home Repair Assistance Programs, Audit 11-12.

We thank the management and staff of the Neighborhood Services Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM
Director of Internal Audit

Attachment

cc: Dan Johnson, Chief of Staff
Audit Committee Members
Beverly Johnson, Administrator, NSD

**DEPARTMENT OF NEIGHBORHOOD SERVICES
HOME REPAIR ASSISTANCE PROGRAMS
AUDIT 11-12
JANUARY 19, 2012**

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M Petty

Auditor



Audit Director

**DEPARTMENT OF NEIGHBORHOOD SERVICES
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INTRODUCTION

The Neighborhood Services and Community Development Department (NSD) offers home rehabilitation and repair to homeowners via two programs it directly administers: World Changers Home Repair, and Roof Repair. Both programs target low- to moderate- income elderly and disabled residents within the City of Chattanooga and are funded using Community Development Block Grant (CDBG) and City General Fund dollars.

World Changers, a ministry of the North American Mission Board of the Southern Baptist Convention, mobilizes youth from throughout the nation to provide volunteer home repairs. Approximately 540 volunteers participated in home repair activities in Chattanooga in 2010, benefiting 36 homeowners. All repairs are performed during a two-week period in July. Repairs primarily consist of exterior painting, gutter repair, installing ramps for persons with disabilities, as well as other minor repairs.

In 2010, NSD established the Roof Repair Program to provide roof repairs to low- to moderate-income homeowners. Roofing repairs were formerly part of the World Changers program, but given the frequency of roofing repair requests, nature of the work, and risks involved, NSD opted to provide the services through independent contractors. The 2010 program offered minor to severe roof repair to 15 homeowners.

STATISTICS

Home Repair Assistance Programs Expenditures, FY09-11

<u>Program/ Funding Source</u>	<u>FY11</u>	<u>FY10</u>	<u>FY09</u>
<i>World Changers Program</i>			
CDBG	\$26,050	\$30,259	\$51,697
<u>City General</u>	<u>5,349</u>	<u>6,569</u>	--
<i>World Changers Total</i>	<i>\$31,399</i>	<i>\$36,828</i>	<i>\$51,697</i>
 <i>Roof Repair Program</i>			
CDBG	\$63,184	--	--
<u>City General</u>	<u>13,803</u>	--	--
<i>Roof Repair Total</i>	<i>\$76,987</i>	--	--
<u>Total Expenditures</u>	<u>\$108,386</u>	<u>\$36,828</u>	<u>\$51,697</u>

Source: NSD Financial Records

STATEMENT OF OBJECTIVES

This audit was requested by the Administrator of the Department of Neighborhood Services and was conducted in accordance with the Internal Audit Division's 2011 Audit Agenda. The objectives of this audit were to:

1. Determine whether recipients met program eligibility requirements;
2. Determine whether project files are adequate and complete;
3. Determine whether City policies and procedures were followed (e.g., purchasing, permits, inspections) in administering the program; and
4. Determine whether expenditures were grant-eligible under U.S. Department of Housing and Urban Development regulations for Community Development Block Grant funds.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers program operations from July 1, 2010 to June 30, 2011. The audit scope was expanded as necessary to meet audit objectives. Source documentation was obtained from the Department of Neighborhood Services, Department of Finance and Administration, and the Purchasing Division. Original records, as well as copies, were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

To meet audit objectives, we reviewed federal laws, rules, regulations and guidance pertaining to administration and use of Community Development Block Grant funds. We interviewed NSD personnel to gain an understanding of program operations and funding practices. We reviewed the *City Purchasing Manual*, purchasing files for contract bids, and City ordinances to determine whether City purchasing policies were followed in administering Home Repair Assistance Programs. We interviewed Department of Public Works personnel and reviewed City building codes to determine whether inspections were required for permitted projects. We obtained and reviewed project files for the World Changers and Roof Repair programs in order to assess their adequacy and completeness. In addition, we compared eligible grant expenses to a sample of reimbursed items to ensure grant funds were appropriately used.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. While recipients met income eligibility requirements set by the City, annual income calculations used to determine eligibility should be amended to comply with HUD regulations.
2. Additional documentation in project files would improve utility of the files for project management and strengthen documentation of compliance with HUD regulations and City policies.
3. While programs adhered to City Purchasing policies, additional efforts are needed to ensure all projects are permitted and inspected in accordance with City building codes.
4. Expenditures we reviewed were appropriately determined to be eligible for CDBG reimbursement.

NOTEWORTHY ACCOMPLISHMENTS

The Roof Repair Program is a valued addition to home repair services for low-income homeowners. Recipients consistently expressed a high degree of satisfaction with services they received and indicated they would recommend the program to others. NSD management should be commended for their foresight in developing this much-needed program.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Home Repair Assistance Programs, they do present risks that can be more effectively controlled.

FINDINGS AND RECOMMENDATIONS

Home Repair Assistance Programs should consider income earned from assets when calculating gross annual income of applicants.

The U.S. Department of Housing and Urban Development (HUD) allows Community Development Block Grant recipients flexibility in defining annual income for the purpose of determining program eligibility. According to the Manager of Community Development, the

City uses the same definition as that for determining Section 8 Housing Assistance Payments (found in 24 CFR Part 5 and informally known as “Part 5”). The Part 5 definition of annual income is the gross amount of income of all adult household members that is anticipated to be received during the upcoming 12-month period.

Home Repair Assistance Program applications require applicants to provide a list of all persons living in the household and the gross annual employment/benefit income for all persons 18 years or older. The sources of income are verified by NSD staff through a review of supporting documents submitted by the applicant. Monthly income is projected to 12 months in order to determine an estimate of gross annual income. The estimate is then compared to HUD income limits for Section 8 housing assistance to determine whether the family would be considered low-income.

According to HUD regulations (24 CFR Part 5) and guidance, income earned from assets including cash held in savings and checking accounts, revocable trusts, equity in rental property or other capital investments (with the exclusion of the family’s primary residence), individual retirement accounts, among other assets should also be included in annual household income. Current program applications do not require disclosure of income derived from assets, and there is no subsequent review to determine whether assets held by the family produce additional income. Excluding such income in the calculation may result in applicants being wrongly accepted as a low-income family eligible for program services. If HUD later determines recipients were ineligible, the City could be required to repay grant dollars spent on home repairs for these individuals.

Recommendation 1:

We recommend NSD include steps to determine income earned from assets in its calculation of annual household income for Home Repair Assistance applicants.

Auditee Response: The 2012 World Changers application process has begun. As part of this year’s eligibility determination process, applicants will be required to provide documentation for income derived from assets owned by each household occupant. All asset incomes will be factored into total household income calculations to determine applicant(s) eligibility. Assets that will be considered include, but are not necessarily limited to, capital investments, bank accounts, retirement accounts. A form has already been developed to capture this information. Further, applicants will be required to sign a statement attesting that the information provided is correct.

Program should ensure completed projects are properly permitted and inspected by the Land Development Office, when applicable.

Building permits are required to ensure public safety, health, and welfare as they are affected by building construction (e.g., structural strength, light, ventilation and fire safety). A City of Chattanooga building permit is required for all new construction and alterations, repairs, or additions to existing buildings or structures. Cosmetic alterations to existing buildings such as paint do not require building permits. Once complete, any work requiring a permit shall be

subject to building inspection, per the 2006 International Building Code adopted by the City in 2009 (Ordinance # 12271).

We reviewed a sample of World Changers (22 of 36) and all (15) Roof Repair project files to determine whether permits were obtained for projects involving construction. We found all Roof Repair projects had been properly permitted. World Changers projects were all permitted, with the exception of one project involving repair of a ramp for handicap access.

We also reviewed the files to determine whether the completed projects passed a final building inspection. While we found that all Roof Repair projects passed a final inspection, none of the World Changers project files contained evidence of a final inspection. According to the 2006 International Building Code, it is the duty of the permit holder to notify building inspectors and make the property available to inspectors when work is complete. However, NSD staff told us they do not routinely notify the Land Development Office upon project completion and were unaware it was incumbent upon permit holders to request inspections.

Not requiring World Changers projects to undergo final inspections potentially leaves properties in unhealthy or unsafe condition for homeowners. It should be noted that the cost of inspections are included in permit fees; therefore, inspections would result in no additional cost to NSD.

Recommendation 2:

We recommend NSD staff ensure all World Changers projects involving construction are properly permitted and pass final building inspections upon completion. Work started, but not completed, by the World Changers volunteers should be completed and inspected, where necessary, for the health and safety of occupants.

***Auditee Response:** Permits are always obtained for World Changers project before any work is begun. Permit fee averages \$40 per project. Typically, we apply for and obtain all permits at once. We were not aware that it was the Department's responsibility to notify the Land Development Office to conduct final inspections. The Department has included this procedure in the World Changers Operating Policies and Procedures manual. Going forward, the Department will notify the Land Development Office when final inspections are required. A copy of each property's building permit is already a part of project documentation. We will now include a copy of the final inspection report with each property's file which together these documents will serve as evidence that the work was appropriately permitted, inspected and approved.*

Inclusion of additional supporting documentation would improve project files.

To assess the adequacy and completeness of 2010 project files, we reviewed a sample (22 of 36) of World Changers and all (15) Roof Repair project files. We found that files were maintained in an organized manner that would allow for third-party review. However, we noted that for both programs additional supporting documentation would improve the utility

of the files for project management and strengthen documentation of compliance with pertinent federal grant regulations and City building codes.

World Changers

- **File Checklist** – A file checklist identifies all documentation that should be included in the project file and serves as evidence that program staff reviewed files for completeness. Checklists were not present in World Changers project files.
- **Scope of Work Agreement** – Agreements between homeowners, World Changers construction volunteers, and NSD staff detailing work to be performed to each home were not present in project files. Such agreements should serve as the basis of work performed to the home and would provide assurance that the homeowner is aware of, and agrees to, limitations of work to be performed. **Note:** For 2011 projects, NSD implemented the *Worksite Information Form* outlining the scope of work, materials required, and signed by homeowners, World Changers construction volunteers, and NSD staff.
- **Building Permits** – Although files included invoices listing permits obtained for the projects, including the building permit in the file would demonstrate scope of work and compliance with City building permit requirements.
- **Building Inspection Results** – Inspection results would demonstrate completion of the project and compliance with City building codes.
- **Lead-based Paint Inspection Results** – While Community Development maintains a file of all lead-based paint inspections performed for World Changers, a copy of the results could also be maintained in the project file.
- **Before and After Pictures** – In general, before and after pictures maintained in project files did not demonstrate work performed on the home. For example, while a project included installation of a handicap ramp, no before or after pictures were taken showing presence of a new ramp. Standard pictures of the front of the home were included in the project file. Labeled and dated before and after pictures of all the work should be included in the file and cross referenced to the work specifications.
- **Recipient Surveys** – No surveys were present in the project files. Participant feedback may provide insight into areas that could be improved.

Roof Repair

- **Before and After Pictures** – Standard before pictures of the front of the home were included in the project file. Labeled and dated before and after pictures of all work should be included in the file and cross referenced to the work specifications.

Recommendation 3:

We recommend NSD include additional supporting documents in project files for both Home Repair Assistance Programs. Supporting documents we identified above would better demonstrate compliance with federal grant regulations and City building codes as well as improve project administration.

Auditee Response: *The Department will follow the recommendations related to documenting files with all supporting documents listed in this recommendation for the home repair component of the World Changers Program.*

The Department has determined that the Roof Repair Program would be better managed by a non-city entity and therefore will no longer engage in this activity. The Roof Repair Program will continue, but effective July 1, 2012 it will be managed by a nonprofit housing development agency that has the capacity to manage this program component more efficiently.

The Department appreciates the thorough review of the Home Repair Assistance Programs by the Internal Audit Department, and the constructive recommendations offered.