



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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September 18, 2018

Dean Bogle, Board Chairperson
City of Humboldt
330 E Square
Humboldt, NE 68376-0156

Crystal Dunekacke, Mayor
City of Humboldt
330 E Square
Humboldt, NE 68376-0156

Tom Bliss, Executive Director
Southeast Nebraska Development District
2100 Fletcher Ave, Ste. 100
Lincoln, NE 68521

Dear Sirs and Madam:

As you may know, the Nebraska Auditor of Public Accounts (APA) has received concerns regarding grants received by the City of Humboldt for rehabilitation of residential housing. As a result, the APA began limited preliminary planning work to determine if a full financial audit or attestation would be warranted. Pursuant thereto, the APA requested certain information regarding these grants. Based upon the outcome of the preliminary planning work, including an analysis of the information received, the APA has determined that it is unnecessary for this office to perform a separate financial audit or attestation at this time.

During the course of the preliminary planning work, we noted certain internal control or compliance matters, or other operational matters, that are presented below. The following information is intended to improve internal controls or result in other operational efficiencies.

Background

The City of Humboldt (City) has an Owner Occupied Housing Rehabilitation Program (Program) to provide aid to eligible applicants for rehabilitating substandard, single-family homes. On October 22, 2014, the former mayor of the City entered into two contracts with the Nebraska Department of Economic Development (NDED) to receive grant funding for the Program. That funding came from the Nebraska Affordable Housing Trust Fund (NAHTF) and the Community Development Block Grant (CDBG).

In November 2014, the City adopted both the NAHTF and the CDBG guidelines for the Program. Those guidelines are similar, requiring individuals seeking aid under the Program to meet a series of eligibility requirements, including certain income criteria.

Per the NAHTF contract (Contract No. 14-TFHO-3S018) and the CDBG contract (Contract No. 14-HO-3S056), the City is to receive the following fund grant totals, which are to be used as noted in the table below:

| Description | NAHTF | CDBG | Total |
|------------------------|------------------|------------------|------------------|
| Housing Rehabilitation | \$125,000 | \$179,045 | \$304,045 |
| Demolition | \$10,000 | \$0 | \$10,000 |
| Housing Management | \$21,100 | \$28,000 | \$49,100 |
| General Administration | \$10,385 | \$14,000 | \$24,385 |
| Totals | \$166,485 | \$221,045 | \$387,530 |

The following table outlines the grant funds received by the Program as of August 17, 2018:

| Calendar Year | NAHTF | CDBG | Total |
|---------------|---------------------|---------------------|---------------------|
| 2015 | \$1,818.62 | \$25,258.81 | \$27,077.43 |
| 2016 | \$8,298.40 | \$89,998.96 | \$98,297.36 |
| 2017 | \$111,226.04 | \$77,379.34 | \$188,605.38 |
| 2018 | \$35,832.62 | \$0.00 | \$35,832.62 |
| Totals | \$157,175.68 | \$192,637.11 | \$349,812.79 |

Per records received by the Southeast Nebraska Development District (SEND D), the amounts paid to applicants under the City’s program are as follows:

| Description | NAHTF | CDBG | Total |
|-----------------------|-----------|-----------|-----------|
| Amounts to Applicants | \$124,905 | \$171,277 | \$296,182 |

As noted above, the amounts paid to the Program include funds for general administration that would not be paid to applicants.

The City has contracted with SEND D to help administer the Program by providing eligibility determination for applicants.

Comment and Recommendation

1. Inadequate Eligibility Determinations and Lack of Documentation

During our analysis of the information obtained, the APA noted both inadequate income verification and a lack of documentation by the City and SEND D to support that applicants for Program assistance had met all of the eligibility requirements, as described below.

The APA originally requested the income verification information and eligibility documentation from the City; however, those records were maintained by SEND D, the contracted program operator. The APA then contacted the Housing Program Manager with SEND D to obtain the verification information and eligibility documentation for a few applicants. Unfortunately, there were several delays in receiving the requested records. A short timeline has been included below:

- On June 8, 2018, the APA sent an email message to SEND D, pointing out that not all of the requested items had been received from the APA request for information on May 23, 2018. SEND D responded, in part, “The Housing Specialist that administered these projects is no longer with SEND D so it is taking us a little longer to find these documents as we are going through his files.”

- On June 28, 2018, the APA sent a follow-up email to SENDD, as no further documentation had been received.
- On July 6, 2018, the APA received some of the requested documentation from SENDD. An accompanying message said, “We are still looking through the files for a few more documents and I’ll send those to you as soon as possible. The housing specialist that has taken over these files is currently on vacation and will return Monday.”
- On July 10, 2018, the APA received additional information; however, several income verifications were still missing.

The following table summarizes the information received for all 12 Program applicants. For those applicants with “Not Completed” in the “APA Verified Household Income” column, no verification was completed by the APA because supporting documentation for the applicants’ income was not requested. Due to delays in receiving information, the APA only requested support for three applicants.

| Applicant # | Grant | Employment Status | Size | Household Income per Application | Verified Income by SENDD | APA Confirmed Household Income |
|--------------|-------|-------------------|------|----------------------------------|--------------------------|--------------------------------|
| Applicant 1 | TFHO | Unemployed | 2 | \$20,044.00 | \$17,640.00 | Not Completed |
| Applicant 2 | TFHO | Unemployed | 2 | \$31,476.00 | \$29,586.00 | Not Completed |
| Applicant 3 | TFHO | Employed | 5 | \$28,192.00 | \$17,503.00 | Not Completed |
| Applicant 4 | TFHO | Employed | 1 | \$25,440.00 | \$32,416.40 | Not Completed |
| Applicant 5 | TFHO | Employed | 4 | \$0.00 | \$35,438.00 | \$44,654.00 |
| Applicant 6 | CDBG | Employed | 2 | \$30,401.13 | \$30,900.00 | Not Completed |
| Applicant 7 | CDBG | Employed | 5 | \$59,300.00 | \$37,800.00 | \$8,369.19 |
| Applicant 8 | CDBG | Unemployed | 2 | \$0.00 | \$34,820.00 | \$34,821.60 |
| Applicant 9 | CDBG | Employed | 1 | \$12,240.00 | \$11,045.79 | Not Completed |
| Applicant 10 | CDBG | Retired | 1 | \$15,442.80 | \$13,932.00 | Not Completed |
| Applicant 11 | CDBG | Employed | 1 | \$31,283.82 | \$31,294.74 | Not Completed |
| Applicant 12 | CDBG | Retired | 1 | \$15,120.00 | \$13,984.68 | Not Completed |

The following details illustrate the improper income verification information and eligibility documentation maintained by SENDD.

Applicant Number Seven

This applicant applied for Program assistance in December 2014 and was approved for CDBG funding. The following table details the income listed on the application and the amounts verified by SENDD.

| Description | Application | Verified by SENDD |
|---|--------------------|--------------------|
| Applicant’s Annual Income – Salaries | \$37,800.00 | \$37,800.00 |
| Co-applicant’s Annual Income – Salaries | \$12,000.00 | \$0.00 |
| Other Annual Income | \$9,500.00 | \$0.00 |
| Totals | \$59,300.00 | \$37,800.00 |

Per an email message to SENDD, the co-applicant provided the income verification for self-employment, which was for \$8,369. In that message, the individual also explained that the applicant is no longer employed but is looking for work and is expecting to be paid \$10 to \$12 an hour. Furthermore, the co-applicant stated that an IRS Form 1040 would be sent to SENDD upon completion. No other information was provided to support the remaining \$29,431 verified by SENDD.

Without the supporting documentation, the APA was unable to verify if the applicant’s income was actually lower than initially reported on the application and would have been below the income threshold for eligibility.

Applicant Number Five

The applicant applied for aid in June 2017 and was approved for NAHTF funding. On the application, the applicant listed three child support orders; however, no amounts were reported for these. In addition, this applicant reported being employed, but no wages were reported from this job.

SENDD verified an income of \$35,438 for the applicant’s job; however, the APA determined that total annual income was \$44,654, including child support income of \$9,216. The table below illustrates the differing incomes verified by the APA and SENDD.

| Description | Application | Verified by SENDD | Verified by APA |
|--|---------------|--------------------|--------------------|
| Applicant’s Annual Income – Wages/Salary | \$0.00 | \$35,438.00 | \$35,438.00 |
| Child Support | \$0.00 | \$0.00 | \$9,216.00 |
| Totals | \$0.00 | \$35,438.00 | \$44,654.00 |

Even though the application indicated there was income from child support orders, SENDD verified only the wages from the applicant’s job and not the child support amounts. While the income verified by the APA was still below the income threshold, the APA was able to verify a significant amount of child support that should have been included in the annual income to determine eligibility. Depending on the amount received, failure to include child support could adversely affect whether the applicant is qualified for funding under the Program.

Applicant Number Eight

This applicant recorded no income on their application; however, SENDD verified \$34,820.

Section III, “Eligibility Criteria,” subsection D, of the NAHTF guidelines, which were adopted in November 2014, states the following:

To qualify, the applicant’s annual gross household income cannot exceed the established income guidelines as listed on page 11 of this document, and as further modified by the NDED Income Guidelines that are in affect at the time of the specific rehab program. (Income levels will be verified according to 24 CFR Part 5.609). Income eligibility guidelines are based upon a maximum of 100% of median income for NAHP Trust Funds, for various family sizes as established for Richardson County from the most current Income Guidelines established by the Nebraska Department of Economic Development (NDED) and the Department of Housing and Urban Development (HUD). . . .

Section III, “Eligibility Criteria,” subsection D, of the CDBG guidelines, which were adopted in November 2014, states the following:

To qualify, the applicant’s annual gross household income cannot exceed the established income guidelines as listed on page 11 of this document, and as further modified by the NDED Income Guidelines that are in affect at the time of the specific rehab program. (Income levels will be verified according to 24 CFR Part 5.609). Income eligibility guidelines are based upon a maximum of eighty percent (80%) of median income for CDBG projects, for various family sizes as established for Richardson County from the most current Income Guidelines established by the Nebraska Department of Economic Development (NDED) and the Department of Housing and Urban Development (HUD). . . .

The types of income that are required to be included in the income verification are codified at Title 24 of the Code of Federal Regulations. Specifically, 24 C.F.R. § 5.609(b) (March 8, 2016) states, in relevant part, the following:

Annual income includes, but is not limited to:

(1) The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services;

(2) The net income from the operation of a business or profession. . . ;

* * * *

(4) The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount. . . ;

* * * *

(7) Periodic and determinable allowances, such as alimony and child support payments. . . ;

Good internal control requires procedures to ensure that proper income verification information and eligibility documentation is on file for Program applicants. Without such procedures, there is an increased risk for the improper distribution or misuse of Program funds.

We recommend the City and SENDD implement procedures to ensure proper income verification information and eligibility documentation is on file for Program applicants.

City Response: We have received and reviewed your recommendations regarding the audit of the 2014 Humboldt OOR Trust Fund Program. After review, we have found additional documentation from the highlighted applicants' files that were not included in the original submission of requested documents. We currently have a verification process in place to ensure that all applications received are verified as accurately as possible. This precision is based off information provided by applicants.

The difficulty we encountered with this particular request was due to a previous SENDD staff member not following internal procedures. We have since discussed with current staff members the importance of not only gathering the necessary verifications, but also ensuring that all files/documents are easily accessible. We constantly work to improve our processes and controls with the goal of obtaining complete and accurate documentation, while ensuring that files are uniformly organized. I can assure you that we are committed to this process and appreciate your recommendations. Thanks you for your time and efforts in this matter.

* * * * *

The preliminary planning work that resulted in this letter was designed primarily on a test basis; therefore, it may not bring to light all existing weaknesses in the City's policies or procedures. Nevertheless, our objective is to use the knowledge gained during our preliminary planning activities to make comments and recommendations that we hope will prove useful to both the City and its contracted program operator, SENDD.

Draft copies of this letter were furnished to the City and SENDD to provide their management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into the letter.

This communication is intended solely for the information and use of the management of the City and SENDD. It is not intended to be, and should not be, used by anyone other than those specified parties. However, this letter is a matter of public record, and its distribution is not limited.

If you have any questions regarding the above information, please contact our office.

Sincerely,

A handwritten signature in black ink that reads "Mary Avery". The signature is written in a cursive style with a large, looping "A" at the end.

Mary Avery
Special Audits and Finance Manager
Phone: 402-471-3686
mary.avery@nebraska.gov

cc: Nebraska Department of Economic Development