




**CITY OF LAREDO, TEXAS
INTERNAL AUDIT DIVISION**

To: Honorable Mayor & Members of the City Council

CC: Robert A. Eads, City Manager
Rosario C. Cabello, Deputy City Manager
Kristina L. Hale, Assistant City Manager
Riazul I. Mia, Assistant City Manager
Rene C. Benavides, City Attorney

From: Veronica Urbano-Baeza, Internal Auditor 

Date: January 29, 2021

Subject: Friday Packet: Internal Audit Report(s) and/or Update(s)

Enclosed we are re-submitting the following report(s) for your review and subsequent approval at the upcoming City Council meeting:

1. Livability Grant Program Audit Report: Community Development Department (Housing Rehabilitation Division); and,
2. Consolidated Report (with Executive Summary): Unannounced Cash and Inventory Count Controls Audits with Department Responses (conducted November 2020).

Both of the reports enclosed were previously submitted in the Friday Packet of January 15, 2021.

We would like to thank Community Development Department management and staff for their assistance during our audit. If you should have any questions regarding the enclosed report(s) submitted, please feel free to contact me at my office at (956) 790-1808. Thank you.

City of Laredo, Texas
Internal Audit Division



Special Assignment:

Livability Grant Program Audit Report -
Community Development Department (Housing
Rehabilitation Division)

January 12, 2021

**City of Laredo
Internal Audit Division**

**Special Assignment:
Livability Grant Program Audit Report – Community
Development Department (Housing Rehabilitation
Division)**

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EXECUTIVE SUMMARY

On September 16, 2020, the Internal Audit Division received a complaint from a recipient of the Livability Grant program administered by the Housing Rehabilitation Division of the Community Development Department. The complaint alleged that the scope of work to be conducted to the home was either not done in accordance with the Livability Grant agreement or not done to the satisfaction of the homeowner. A summary of the audit objectives, results and recommendations follows.

The overall objective of this audit was to determine if the funding awarded for this recipient's home was spent in accordance with the scope of the contract signed by the recipient, the contractor and the Community Development Department. Additionally, an assessment for compliance with the guidelines pertaining to the Livability Grant as part of the Community Development Department's Housing Rehabilitation (Housing Rehab) Program Policy & Procedures Manual was conducted.

In order to confirm or refute the alleged complaint brought to our attention, we reviewed the "Final" Scope of Work and Plan signed by the Recipient, the Contractor and Community Development staff and cross referenced with the inspection history conducted by Community Development (Housing Rehab) staff and the "Request for Payment" to the Contractor.

Based off of our assessment of the Recipient file maintained at the Housing Rehab Division and our test work in cross referencing the authorized Scope of Work with the inspection history and subsequent payment to the Contractor, it appears that all work agreed to by the Recipient (Homeowner), the Contractor and Community Development staff was completed with the exception of the documented and authorized change order credit given by the Contractor.

Proper internal controls are in place and working as deemed by the City's Community Development Department's Housing Rehabilitation (Housing Rehab) Program Policy & Procedures Manual.

No written response to the enclosed audit results is required on this report.

A more extensive report of all the audit results and recommendations can be found in the following report.

INTRODUCTION

On September 16, 2020, the Internal Audit Division received a complaint from a recipient of the Livability Grant program administered by the Housing Rehabilitation Division of the Community Development Department. The complaint alleged that the scope of work to be conducted to the home was either not done in accordance with the Livability Grant agreement or not done to the satisfaction of the homeowner. Specifically, the homeowner had concerns regarding the work that was done to his home and claimed that Community Development staff did not explain the scope of work in detail. He also stated that Community Development did not provide a three-dimensional schematic of the ceramic shower stalls and did not let him decide what he wanted and needed.

According to the City's Housing Rehabilitation Program Policy and Procedures Manual The Livability Grant (LG) Program provides for a grant of up to \$15,000 to make repairs to the roofing, electrical, plumbing system, and to make modifications to address handicapped accessibility and other housing components that if left uncorrected would pose a life threatening hazard or hardship to the occupants of the housing unit. This grant is available to owners that reside in their home, whose income is at or below the 80% of the area median family income, and do not qualify for the assistance under the loan program.

AUDIT OBJECTIVES

The overall objective of this audit was to determine if the funding awarded for this recipient's home was spent in accordance with the scope of the contract signed by the recipient, the contractor and the Community Development Department. Additionally, an assessment for compliance with the guidelines pertaining to the Livability Grant as part of the Community Development Department's Housing Rehabilitation (Housing Rehab) Program Policy & Procedures Manual was conducted.

AUDIT SCOPE AND METHODOLOGY

The scope of this audit consisted of a review of only the recipient file in question. In order to achieve the audit objectives, we:

- Conducted interviews of Community Development (Housing Rehab) Department and Legal Department staff;
- Obtained and reviewed the recipient file maintained by the Housing Rehab Division;
- Obtained an understanding of the most recent City of Laredo – Department of Community Development Housing Rehabilitation Program Policy & Procedures Manual;

- Obtained an understanding of the guidelines pertinent to the Livability Grant.

We conducted this audit from September 2020 to January 2021 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 audit results and conclusions based on our audit objectives.

AUDIT RESULTS & RECOMMENDATIONS

In order to confirm or refute the alleged complaint brought to our attention, we reviewed the “Final” Scope of Work and Plan signed by the Recipient, the Contractor and Community Development staff and cross referenced with the inspection history conducted by Community Development (Housing Rehab) staff and the “Request for Payment” to the Contractor. The results of our test work can be found in the table below.

Scope of work agreed to & conducted	Scheduled Value	This Payment Request	% Completed	Completed Value	Date Inspected by Housing Rehab:	Invoice #/ Payment #/ Payment Date
Building Permits	\$ 400.00	\$ 400.00	100%	\$ 400.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
Demolition	\$ 850.00	\$ 850.00	100%	\$ 850.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
Plumbing & plumbing fixtures	\$ 2,850.00	\$ 2,850.00	100%	\$ 2,850.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
Carpentry/ Doors	\$ 1,850.00	\$ 1,850.00	100%	\$ 1,850.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
Gypsum board & Insulation	\$ 850.00	\$ 850.00	100%	\$ 850.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
Ceramic shower stalls	\$ 3,700.00	\$ 3,700.00	100%	\$ 3,700.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
Paint ext. & int.	\$ 750.00	\$ 750.00	100%	\$ 750.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
HVAC	\$ 2,650.00	\$ 2,650.00	100%	\$ 2,650.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
O'Boy Services	\$ 200.00	\$ 200.00	100%	\$ 200.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
Clean up	\$ 500.00	\$ 500.00	100%	\$ 500.00	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
Change order No. 2: ADA commode installation; pedestal lavatory sink installation; shower stall grab bars installation; grout for laundry bathroom floor tile	\$ (200.00)	\$ (200.00)	100%	\$ (200.00)	8/26/2020	Request No. 2019-43; EFT No. 17179/ 9-9-2020
TOTAL	\$ 14,400.00	\$ 14,400.00				

Our assessment of the Recipient's grant file documentation reflected that the large majority of work agreed to in the authorized scope of work was completed by the Contractor and inspected by Community Development staff for completion prior to payment to the Contractor. A monetary change order was authorized by Community Development where a two hundred dollar (\$200.00) credit was given by the Contractor for not installing the following items: a toilet, a pedestal sink, ADA bars and grout (all material was on site). The Contractor provided a signed explanation of events that transpired throughout the course of the project that eventually led them to notify

Community Development staff that they would not continue the project and issued the \$200.00 credit. Among some of the issues noted, the Contractor explained that:

- Recipient (Homeowner) wanted additional items worked on that fell outside the Scope of Work agreed to and signed by the Homeowner.
- Warranty / insurance concerns noted by the Contractor due to the Homeowner conducting separate construction modifications to the work area authorized in the Scope of Work. A review of the approved Building Permits for this location reflected that only the Building Permits obtained by the Contractor were approved.
- Homeowner removed ceramic tile installed in the laundry room by the Contractor with the reason noted that the Homeowner did not like how the tile was installed. A subsequent inspection by Community Development staff confirmed that the tile had been removed from the laundry room by the Homeowner. In documentation submitted by the Housing Rehab Inspector, a review of photos taken of the tile installation prior to the removal appeared to show a satisfactory job by the Contractor. The Contractor could no longer warranty the tile work since it was not removed by his staff.
- Homeowner damaged and moved project work materials left on site by the Contractor.

Based off of our assessment of the Recipient file maintained at the Housing Rehab Division and our test work in cross referencing the authorized Scope of Work with the inspection history and subsequent payment to the Contractor, it appears that all work agreed to by the Recipient (Homeowner), the Contractor and Community Development staff was completed with the exception of the documented and authorized change order credit given by the Contractor. It should be noted that as a part of our review of the Recipient file, we were able to confirm that the Recipient (Homeowner) accepted the authorized Scope of Work when they signed the following documents:

- The “Final” Scope of Work and Plan;
- The Acknowledgment of the Livability Grant which states that “the work that will be done to our home will be limited as specified by the work write-up”;
- The “Notice to Proceed” which dictates that “all work shall be completed according to the Plans and Specifications within 30 calendar days after the date of this Proceed Order”; and,
- The Livability Grant Agreement between the Recipient (Homeowner) and the Contractor, which includes the following, that:
 - “only duly qualified electricians, plumbers and HVAC technicians licensed in the State of Texas and registered in the City of Laredo shall install and

be present during all electrical, plumbing and HVAC work respectively” (Provision # 2);

- “under no circumstance shall the contractor deviate from the description of work without a written change order approved by the Department of Community Development” (Provision # 5); and,
- “work must be performed by a skilled and registered contractor” (Provision #6);

Observation #1

In our review of the payment(s) made to the contractor on this project, it was observed in the supporting documentation that a change order with a credit of \$200.00 was mislabeled as Change Order #1 when it should have been labeled as Change Order #2 to coincide with the corresponding change order authorization included as supporting documentation.

Recommendation(s)

We would recommend that all change orders reflected in the supporting “Change Order Authorization(s)” documentation be listed out under the detail reflected in the “Request for Payment” just to double check reconciliation of all supporting documentation on the Request for Accounts Payable Check.

CONCLUSION

Proper internal controls are in place and working as deemed by the City’s Community Development Department’s Housing Rehabilitation (Housing Rehab) Program Policy & Procedures Manual.

Additionally, Internal Audit concluded the funding awarded for this recipient’s home was spent in accordance with the scope of the contract signed by the recipient, the contractor and the Community Development Department.

Prepared By: <u>Bmedellin</u> <u>1/12/2021</u>	Reviewed By: <u>Veronica Urbano-Baeza</u> <u>1-12-2021</u>
Bianca Medellin, Auditor I Date	Veronica Urbano-Baeza, Internal Auditor Date

Report Issued To:	Response Required	Response Due Date
Tina Martinez, Community Development Director	NO	NOT APPLICABLE

All responses must be signed by the Department Director, addressed and submitted to the Internal Auditor with a copy to their respective Assistant/Deputy City Manager and City Manager, and include the following:

1. Agreement with audit findings and recommendations or reasons for disagreement with audit findings and recommendations;
2. A description of the progress in resolving findings noted or plans for addressing findings noted; and,
3. An implementation schedule identifying specific steps to be taken and target dates for resolution of findings and/or implementation of corrective action taken.

Report Distribution:

Robert A. Eads, City Manager
 Kristina L. Hale, Assistant City Manager