



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Little Rock Field Office, Region VI
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July 11, 2014

Mr. Matthew Jennings
Community Development Director
City of Fort Smith
P. O. Box 1908
Fort Smith, AR 72902

Dear Mr. Jennings:

We have completed our annual monitoring review of the City of Fort Smith's Community Development Block Grant (CDBG) and HOME Programs for the 2012 Program Year. This letter is to report to the City the results of our April 9-11, 2014, monitoring review and assessment of the City's performance in the administration of these programs. The success of our monitoring visit was greatly aided by the professional coordination and cooperation of your Community Development (CD) staff. The assistance provided by your staff was a valuable contribution to our review.

Monitoring is the principle means by which this office carries out its statutorily mandated responsibility to review grantee performance in administering block grant activities pursuant to the Housing and Community Development Act of 1974. Monitoring is also used to both ensure grantee compliance with statutory and regulatory requirements, and improve grantee program performance. Our objectives are to improve performance, assure that Federal funds are being managed properly, and to evaluate the effectiveness of your programs and need for technical assistance.

At the exit conference held on April 11, 2014, HUD discussed the results of the review and provided you with an opportunity to comment on its initial conclusions. The enclosed monitoring report contains the results and details of each program area reviewed. There was one finding noted during our review.

Thank you for your continued interest in HUD programs. Should you have questions concerning this letter or other matters pertaining to your grant programs, please call your Community Planning and Development Representative, Lisa Spigner, on (501) 918-5734.

Sincerely,

A handwritten signature in black ink, appearing to read 'Clinton E. Johnson', with a long horizontal flourish extending to the right.

Clinton E. Johnson
Director, Community
Planning and Development

Enclosure

cc:
Ray Gosack
City Administrator

Little Rock Office of Community Planning and Development

Monitoring Report for the City of Fort Smith

Monitoring Team

Lisa Spigner, CPD Representative
Rhonda Shannon, CPD Representative

The City's Community Planning and Development Representative, Lisa Spigner, can be reached on (501) 918-5734. Please feel free to contact her if there are questions or concerns regarding this report.

Date of Review

April 9-11, 2014

Scope of the Review

The review covered the City's Community Development Block Grant (CDBG) and HOME Program activities carried out during the period July 1, 2012 through June 30, 2013. Program areas reviewed include Program Benefit, Program Progress, Program Eligibility, and Housing Rehabilitation. HUD's review encompassed activities that were included in the City's Consolidated Plan/Annual Action Plan for the 2012 Program Year. This included a review of files and other records, on-site inspections, IDIS reports, performance reports submitted to HUD and the City's annual audit.

EXECUTIVE SUMMARY

The City of Fort Smith has carried out its CDBG and HOME Program related activities in substantial compliance with program regulations, handbooks, and other administrative directives governing Community Planning and Development programs. Additionally, HUD has concluded that overall, the City of Fort Smith appears to have well-managed HUD-funded programs, and an experienced and dedicated staff committed to providing quality services to the community. However, there was one (1) finding noted, which requires corrective action. The City is required to provide a response to the finding within 30 days of the date of this letter.

Finding No. 1 – The Lend A Hand/Fisher's Way Infrastructure project was not completed, and did not meet a national objective described at 24 CFR 570.208.

PROGRAM BENEFIT

Performance Standard: The CDBG regulations provide that funds must be used to assist activities that are both eligible and meet one of three national objectives. Basically, only those activities that are designed to principally benefit low and moderate-income persons (LMI), aid in the prevention or elimination of slum and blight, or meet an urgent need, can be undertaken with CDBG funds. Further, the regulations at 24 CFR 570.200 (a)(3) require a minimum of 70 percent of funds expended for CDBG activities over a 1-3 year period, as specified by the grantee, principally benefit low and moderate-income persons.

Actual Performance: HUD selected a sample of the City's 2012 projects for review to determine whether each activity met the stated objective. The activities HUD reviewed included Housing Rehabilitation, Public Services and Public Facilities. Specific activities reviewed relative to these program areas included: seven (7) Housing Rehab Dwellings; three (3) Public Service Activities: the Heart to Heart Pregnancy Support Center (\$8,199), the Lincoln Child Care Center (\$5,400), and the Westark RSVP Medicare Counseling Project (\$6,000); and three (3) Public Facility Activities: the Lend A Hand Fisher's Way Infrastructure project (\$62,211), the Children's Emergency Shelter (\$36,684), and the Westark RSVP Agency Rehab project (\$29,164). HUD reviewed information concerning project description, location, and service areas, and identified beneficiaries included in the City's block grant files for its 2012 program year.

Conclusions: HUD's review of file documentation and subsequent site visits to the activities listed above substantiates that each activity complies with the national objective requirements. There were no activities attempted under either the urgent needs criteria or the slum and blight criteria. Therefore, all activities undertaken meet the national objective as claimed. The records for the 2012 program year revealed that, with the exception of the Lend A Hand/Fisher's Way Infrastructure project, all funds expended during that period were for activities that principally benefit LMI persons, and HUD's on-site reviews of the project service areas did not reveal any inconsistencies between the records, or any instances where LMI benefit is questionable.

Findings or Concerns: One finding, related to the Lend A Hand/Fisher's Way project, is noted below under activity eligibility.

PROGRAM PROGRESS

Performance Standard: Monitoring program progress requires an assessment of whether a grantee is carrying out both individual activities and its program as a whole in a timely manner. This assessment is an important element in determining whether the grantee has a continuing capacity to carry out its program in a timely manner as required at 24 CFR 570.902 (a)(i). HUD's established benchmark for Formula grantees, as an indicator of timely program performance, is that un-disbursed program funds at 60 days prior to the end of the program year should be no more than 1.5 times the amount of the current grant.

Actual performance: We reviewed individual activities to determine whether they are progressing in a timely manner according to established performance goals. Files were reviewed for Housing Rehabilitation, Public Services, and Public Facility Activities, to determine whether there were performance issues with regard to project implementation and progress. Planned budgets were compared to expenditures, and any significant issues that impact project start or completion were identified. This included a review of the grantee's balance in LOCCS as of November 4, 2013, and individual project fund balances.

HUD Regulations state that there should be no more than 1.5 times the annual grant remaining in the line of credit at 60 days prior to the end of the program year. Based on the last 60-day drawdown ratio test on November 4, 2013, the City's ratio of timeliness for expending CDBG funds was at 1.08, which is well below the allowable 1.5 ratio.

Conclusions: The City's progress during the past Program Year has been satisfactory in the implementation of individual activities. The City's Community Development staff has successfully administered the CDBG and HOME Programs and is to be commended for the completion of approved activities in a timely manner. HUD Regulations state that there should be no more than 1.5 times the annual grant remaining in the line of credit at 60 days prior to the end of the program year. Based on the last 60-day drawdown ratio test, the City's ratio of timeliness for expending CDBG funds was at 1.08, which is well below the allowable 1.5 ratio. This is well below the benchmark and is an indicator of good performance in this area. Accordingly, the City is on schedule for meeting the standard for the current program year.

Findings and Concerns: None.

ELIGIBILITY

Performance Standard: Each activity undertaken by a grantee must fit one of the categories of eligible activities identified in Subpart C of the CDBG regulations at 24 CFR Part 570. Grantees are required to maintain records for each activity that fully describes the activity assisted, including its geographic location and the provision in Subpart C under which it is eligible. Grantees are also required to maintain evidence that each of their assisted activities meets one of the three national objectives of the CDBG program: benefiting low-to-moderate income persons; aiding in the prevention or elimination of slums or blight; or meeting other community development needs having a particular urgency. The documentation requirements for each of the national objectives are described at 24 CFR 570.208, while the recordkeeping requirements are described at 24 CFR 570.506. The Fort Smith CDBG program consists of activities that benefit low-to-moderate income persons.

Actual Performance: HUD's review covered the following activities for compliance with eligibility, including files supporting the grantee's conclusion: Housing Rehabilitation, Public Services, and Public Facilities. It consisted of a file documentation review and/or an on-site visit to: Seven (7) Housing Rehab Dwellings; three (3) Public Service Activities: the Heart to Heart Pregnancy Support Center (\$8,199), the Lincoln Child Care Center (\$5,400), and the Westark RSVP Medicare Counseling Project (\$6,000).

Additionally, HUD's review consisted of a file documentation review and/or an on-site visit to three (3) Public Facility Activities: the Lend A Hand Fisher's Way Infrastructure project (\$62,211), the Children's Emergency Shelter (\$36,684), and the Westark RSVP Agency Rehab project (\$29,164). Finally, HUD's review included information concerning project description, location, and service areas, and identified beneficiaries included in the City's block grant files for the 2012 program year.

Conclusions: The project and client files reviewed for the above activities indicated that the low-to-moderate income activities carried out were well documented by the City. The review validated the City's statement that all of its activities, with the exception of the Lend A Hand/Fisher's Way Infrastructure project, met basic eligibility requirements.

Finding No. 1 – The Lend A Hand/Fisher's Way Infrastructure project was not completed, and did not meet a national objective described at 24 CFR 570.208.

Condition: The City entered into an agreement with Lend A Hand for the development of a mixed income housing development proposed to be funded with CDBG, HOME, and private funds. CDBG funds in the amount of \$62,211.49 were expended on engineering drainage studies and a preliminary subdivision layout. Prior to the construction of infrastructure, the funding committed to the project by a private lender was rescinded and the project stalled. The City remained committed to the project as Lend A Hand sought other funding. Unfortunately, Lend A Hand was not successful in obtaining the private financing necessary to move forward with the project. Subsequently, the City was unable to recertify Lend A Hand as a CHDO due to the lack of fiscal soundness, and further was unable to enter into the HOME Agreement with Lend A Hand for the construction of affordable housing by the December 31, 2012 deadline. The project has been canceled without the infrastructure or housing being built.

Criteria: 24 CFR 570.208 National Objective. A grantee must establish that a project meets a national objective.

Cause: The CHDO was unable to proceed with the development of affordable housing and no beneficiaries were created as a result of the funds expended.

Effect: CDBG funds in the amount of \$62,211.49 were expended with no beneficiaries created, which resulted in the failure to meet the City's stated national objective of benefitting low- and moderate-income persons.

Corrective Action: The City must repay CDBG funds in the amount of \$62,211.49 or agree to a corresponding reduction to its 2014 grant.

HOME PROGRAM

Overview: Under the HOME Investment Partnership Act Program, HUD allocates funds by formula to Participating Jurisdictions (PJs) in order to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing, for very low and low-income families.

Generally, nonfederal resources must match HOME funds. PJs may use HOME funds to carry out multi-year housing strategies through acquisition, new construction, and rehabilitation of housing, and tenant-based rental assistance. PJs may also provide assistance in a number of eligible forms, including loans, advances, equity investments, interest subsidies, and other forms of investments that HUD approves.

Commitment and Expenditure of HOME Funds

Performance Standard: The PJ must commit and spend its allocated HOME funds within certain timeframes or it will lose those funds. Specifically, the PJ has 24 months to enter into written agreements with developers, contractors, subrecipients, and Community Housing Development Organizations (CHDOs) to commit HOME funds. The PJ also has five years to expend its HOME funds, as required by 24 CFR Part 92.500(d) of the Federal Regulations. The PJ's program was reviewed to determine whether it met the minimum requirement of 24 CFR Part 92.500(d) of the Federal regulations, which outlines performance for HOME activities. The areas tested for compliance included CHDO set-aside requirements, monitoring, recordkeeping, and reporting.

Actual Performance: HUD noted that a written agreement was executed between the PJ and Crawford Sebastian CDC, which carries out HOME funded activities as the City's Community Housing Development Organization (CHDO). Another CHDO, Lend A Hand, could not be re-certified by the deadline in 2012. The City was awarded \$321,925 in HOME funds during 2012. HUD's HOME Deadline Compliance Status Report dated November 30, 2013 indicates that the City successfully met 100 percent of its 2011 HOME Commitment requirement, 47.57 percent of its 2011 CHDO Reservation requirement, and 100 percent of its 2008 HOME Disbursement requirement, by June 30, 2013 and March 31, 2013, respectively, per Federal regulations found at 24 CFR 92.500(d).

HUD's IDIS PR-49 HOME Deadline Compliance Status Report, dated January 28, 2014, indicates that the PJ has met 98.48 percent of its 2012 HOME Commitment requirement. During the monitoring review, the PJ advised HUD staff that there were four new HOME projects that would enable the PJ to meet 100 percent of its commitment requirement by April 30, 2014. The IDIS report further indicates that the PJ has met the 100 percent 2012 CHDO Reservation requirement and the 100 percent 2009 Disbursement requirement. Moreover, HUD's review of open activities for the period ended January 28, 2014, indicated that the PJ had no projects in final draw status more than 120 days.

Conclusions: The PJ met all the HOME program regulations found at 24 CFR 92.500(d), and there were no shortfalls in either HOME Commitments, CHDO Reservations, or HOME disbursements. Overall, the City's HOME program continues to progress well.

Findings or Concerns: None

ADMINISTRATIVE REQUIREMENTS

Performance Standard: The HOME Program rules as set forth at 24 CFR Part 92.502(a) of the regulations specifies certain administrative requirements that must be followed and incorporated into program operations. A PJ is responsible for ensuring that all HOME funds are used in accordance with these requirements, regardless of whether funds are used by CHDOs, subrecipients, state recipients, or contractors. One of the HOME Program administrative requirements is a properly written and executed agreement between PJs and subrecipients.

A written agreement must be executed between the PJ and the recipient of HOME funds before any HOME funds are committed or disbursed, and must contain certain provisions delineating the role the entity is asked to assume, the type of project(s) to be undertaken, as well as any other terms specified for the type of agreement in accordance with 24 CFR Part 92.504(c) of the regulations. It must be a concise statement of the relationship between the PJ and the funding recipient, and state the conditions under which the HOME funds are being provided. A properly written and executed agreement is an extremely valuable management tool for verifying compliance and monitoring performance of subrecipients. It also protects the PJ's HOME funding investment.

Actual Performance: The City had an executed agreement with its designated Community Housing Development Organization, Crawford Sebastian CDC. This agreement contained the appropriate administrative requirements to govern the financial and programmatic operations of the CHDO, and the CHDO's interactions with the City.

Conclusions: Based on HUD's review, all of the required elements were incorporated in the written agreement; such as the amount of funding, number of units to be completed, use of funds, program income, affordability periods, resale/recapture of funds, other program requirements such as minority outreach, environmental review, affirmative marketing, enforcement of the agreement, project requirements, and CHDO provisions. Finally, the agreements contained the role the entity is asked to assume, the type of project(s) to be undertaken, and other terms specified for the type of agreement in accordance with 24 CFR Part 92.504 (c) of the regulations.

Findings and Concerns: None

CHDO MONITORING AND OVERSIGHT

Performance Standard: The PJ must determine the eligibility and qualification of local nonprofit organizations for CHDO designation as described at 24 CFR Part 92 of the Federal regulations. Each participating jurisdiction must identify CHDOs that have the capacity for carrying out its approved housing strategy as indicated in its most recent Action Plan. Further, the PJ must monitor all CHDOs to determine whether or not housing and housing-related services are being delivered in accordance with HOME requirements, as set forth at 24 CFR Part 92 of the Federal regulations. Under the HOME rules, PJs must reserve not less than 15 percent of their HOME allocations for investment in housing to be developed, sponsored, or owned by CHDOs.

Additionally, PJs must ensure that HOME funds are expended only for eligible activities relative to providing housing and housing-related services for low-and very low-income residents. Also, the PJ is required to ensure that all housing produced with HOME funds meets local codes to foster decent, safe and sanitary housing.

The oversight and management of organizations carrying out activities funded through the minimum 15 percent CHDO reserve requires the development and implementation of a system of guidelines, policies, and procedures to ensure compliance with all applicable HOME CHDO requirements. As part of their HOME oversight and management responsibilities, PJs are responsible for ensuring that HOME funds are obligated and expended in a timely fashion. Similarly, PJs are responsible for entering beneficiary data and taking steps to close projects in the IDIS system in a timely and accurate manner. Further, the PJ is required to verify that the CHDO is, at a minimum, complying with all the clauses contained in the "Written Agreement," as required at 24 CFR Part 92.504.

Actual Performance: As documented via HUD's review of onsite CHDO records, the PJ monitors its CHDO annually. Additionally, it reviews CHDO requests for project disbursements received throughout the year to ensure that such requests are consistent with financial management requirements, and inspects CHDO projects periodically, at various percentages of construction, to ensure that such projects are consistent with prevailing building codes. The Crawford Sebastian CDC did not receive operating funds in 2013, but received \$141,296 in CHDO project funds for HOME projects during 2012.

Conclusion: There were no deficiencies noted in this area of HUD's review. The PJ maintains close oversight of its CHDO via annual monitoring reviews, and cost reviews of submitted requests for expenditure and reimbursement of CHDO operating and/or project funds.

Findings or Concerns: None

FINANCIAL MANAGEMENT

Performance Standard: Grantees are required to establish accounting records that are adequate to detail the historical use of Federal funds received. Grantees are also required to establish management controls that will provide for the administration of programs, while making provisions for safeguarding the integrity of program operations. Specifically, grantees must ensure that funds are spent for allowable costs, and verify that beneficiaries meet program requirements. Such systems should provide for efficient operation while minimizing the opportunity for fraud, waste, or mismanagement. These requirements are detailed in Federal guidelines found at 24 CFR Part 85, which is otherwise known as the "common rule."

Actual Performance: With regard to the CDBG and HOME Programs, HUD reviewed the City's overall management of program related financial operations and cost allowability for the period ended December 31, 2012. The City continues to maintain overall citywide financial management policies and procedures, and strong written internal control procedures for its expenditure of HOME and CDBG funds.

Moreover, the City maintains a listing of job descriptions for CDBG and HOME personnel, and an organizational chart showing appropriate lines of authority.

Findings or Concerns: None

COST ALLOWABILITY

Performance Standard: OMB Circular A-87 and 24 CFR 85.22 establishes cost allowability standards for program expenditures to be paid with CDBG and HOME funds. All costs incurred by the grantee must relate to the implementation of CDBG and HOME related activities, and must be considered reasonable and necessary for project implementation. In addition to being eligible, all costs must meet these standards in order to be considered allowable program costs.

Actual Performance: HUD's review included an examination of administrative costs, and programmatic costs associated with the operation of the City's CDBG and HOME Programs. Moreover, CDBG and HOME related expenditures (as indicated in the following tables) were reviewed to determine whether such costs conformed to Federal guidelines.

Table-1: Selected CDBG Expenditures

Line Item	IDIS Act ID	Voucher Created	Voucher Status	Status Date	LOCCS Send Date	Grant Number	Fund Type	Program	Drawn Amount
3	2194	3/12/2013	Complete	3/13/2013	3/12/2013	B11MC050003	EN	CDBG	\$5,625.00
6	2191	3/12/2013	Complete	3/13/2013	3/12/2013	B11MC050003	EN	CDBG	\$288.00
7	2185	3/12/2013	Complete	3/13/2013	3/12/2013	B11MC050003	EN	CDBG	\$1,200.00
8	2189	3/12/2013	Complete	3/13/2013	3/12/2013	B11MC050003	EN	CDBG	\$1,515.71
9	2187	3/12/2013	Complete	3/13/2013	3/12/2013	B11MC050003	EN	CDBG	\$200.00

Table-2: Selected HOME Expenditures

Line Item	IDIS Act ID	Voucher Created	Voucher Status	Status Date	LOCCS Send Date	Grant Number	Fund Type	Program	Drawn Amount
1	2216	3/12/2013	Complete	3/13/2013	3/12/2013	M09MC050202	EN	HOME	\$1,849.73
2	2216	3/12/2013	Complete	3/13/2013	3/12/2013	M12MC050202	PI	HOME	\$3,484.00
4	2203	3/12/2013	Complete	3/13/2013	3/12/2013	M12MC050202	PA	HOME	\$60.50
1	2216	3/12/2013	Complete	3/13/2013	3/12/2013	M11Mc050202	SU	HOME	\$0.27

All of the vouchers referenced in Table-1 and Table-2 conformed to Federal guidelines, as they were supported by documentation such as cancelled checks, paid bills, payrolls, time and attendance records, or contract documents.

Findings or Concerns: None

HOUSING REHABILITATION

Performance Standard: The activities were reviewed to determine whether they meet the minimum requirements of 24 CFR Part 570.202 of the Community Development Block Grant regulations, which outlines eligible rehabilitation activities. Areas tested for compliance included application processing, client eligibility, contracting, construction management, and lead-based paint procedures.

Actual Performance: HUD noted that program guidelines have been developed describing assistance offered to clients in terms of the program benefits, income limits, grant limits and other conditions of eligibility. Information concerning the program is provided to potential beneficiaries and applications are processed in a timely manner.

The City committed \$262,966 in CDBG funds (including \$222,441 reallocated from prior program years) to the Housing Rehabilitation Program in Fiscal Year 2012. According to HUD's review of files and reports submitted to HUD, the City's Single Family Rehabilitation Program includes both the Housing Assistance Program, which assists low- to moderate-income homeowners with repairs to bring their homes up to current minimum housing code, and the City's Emergency Aid Program provides minor housing repair to alleviate conditions that are hazardous to housing occupants or their neighbors. Program objectives are being met, and the overall program is progressing as planned by the City.

HUD reviewed seven (7) of the City's housing rehabilitation files, and made on-site inspections to four (4) of the rehabilitation projects reviewed. The file reviews and on-site visits were completed to determine if the costs were reasonable; workmanship was acceptable; all repairs included in the work description were completed; and if each dwelling, upon completion, met the City's program objective and adopted codes for the City's Rehabilitation Program. Further, HUD conducted an examination of each file to assess program compliance with the Lead Based Paint Rules as set forth at 24 CFR Part 35.915(b) of the Federal Regulations. The files that HUD reviewed were extremely well organized. Documentation of the rehabilitation process was easy to follow and understand.

All of the above files were checked for compliance with LBP notification requirements and the documentation for required testing. HUD noted that two (2) projects required testing, and the City followed the appropriate process. Five (5) projects were of an emergency nature, and the City ensured completion of those projects according to safe work practices. HUD's review of the City's file documentation on the seven rehabilitated homes verified that the City is in compliance with the LBP requirements.

Conclusions: HUD concluded that the City's overall program performance is acceptable. HUD inspected projects that had been completed in the program year, and noted that repairs were limited to eligible improvements and assistance was provided to only low and moderate-income persons. In addition, the units that HUD selected were inspected to ensure compliance with the City's program's objectives and local code requirements. The City is providing assistance to a significant number of households with limited funding.

The assistance that the City provides allows homeowners to remain in their homes; improves energy efficiency; and in some cases, removes potential safety hazards. All of the homeowners that HUD interviewed expressed satisfaction with the work completed, and with the services provided by the City.

The individual housing rehabilitation activity files were reviewed for compliance with the requirements of 570.208(a)(3), 570.506(b)(4), and 24 CFR Part 35.915(b). All files that HUD reviewed included information on income and household size, and verification of income, as well as source documentation for meeting Lead Based Paint policies. The files also contained information regarding the extent of the rehabilitation assistance provided. HUD conducted on-site reviews of four (4) dwelling units that had been completed in the 2012 program year. HUD's inspection revealed that repairs had been completed in accordance with HUD's regulations, and the City's local codes. HUD concluded that the City's overall program performance is good.

Housing rehabilitation is a very complex program to operate, but it can have a tremendous positive impact on the clients and the community served. HUD commends the City for undertaking a program of this nature. Program files and manuals were very well organized and indicated a well-managed housing rehabilitation program. It was evident from HUD's review that the City has a very capable and committed staff, and it has policies and procedures in place to ensure a successful and compliant program.

Findings or Concerns: None.