

CITY OF ROCHESTER
CITY FOCUSED INVESTMENT STRATEGY- COMMERCIAL BUSINESS
ASSISTANCE PROGRAM
REVIEW OF THE FREEDOM COMMUNITY ENTERPRISE INC. GRANT

Distribution: Lovely A. Warren, Mayor
James Smith, Deputy Mayor
Gary Kirkmire, Commissioner/NBD
Tim Curtin, Corporation Counsel

Office of Public Integrity
Date: April 30, 2020

I. EXECUTIVE SUMMARY

At the request of the City's Department of Neighborhood Business and Development (NBD), OPI performed a review of Contract 124792 between the City of Rochester and Freedom Community Enterprises Inc. We examined invoices submitted, along with all supporting documents provided, for compliance and the propriety of reported expenses. However, we noted the following finding that requires management attention to improve administrative and internal controls and to ensure compliance with prescribed policy and contract requirements.

- ◆ Fifty-one of the fifty-nine invoices submitted by the grantee for reimbursement for subcontractor labor did not include detail of work performed. The remaining eight included work for Northeast Area Development (NEAD) that was outside of the scope of this agreement and performed at different NEAD properties.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

The Office of Public Integrity routinely reviews contract compliance of grantees who conduct business with the City of Rochester. Neighborhood Business Development requested this review.

B. Background

The City entered into a grant agreement with Freedom Community Enterprises, Inc. in April 2013. The total of the grant awarded was \$140,000.00. Community Development Block Grant funding was used for this grant as part of the City's Focused Investment Strategy (FIS) – Commercial Business Assistance Program. This program provides financial assistance to businesses and property owners in designated FIS areas throughout the City. The objective is to promote investment, create jobs and revitalize neighborhoods.

The acquisition of 359 Webster Avenue was included in the agreement. In addition to the acquisition of property the grant was used to renovate the property and purchase furniture and equipment.

Freedom Community Enterprises, Inc. is a corporation created by Northeast Area Development. They lease the space at 359 Webster Avenue and operate a food market. NEAD owns the property. Northeast Area Development purchased the building in 2011. We noted a copy of

an official bank check for the purchase in the amount of \$72,033. The grantee provided a copy of the lease document between Freedom Community Enterprises and NEAD.

C. Objective and Scope

The purpose of this review was to determine that the grant funding was utilized in compliance with the terms of the agreement, to determine that all expenses submitted for reimbursement are eligible and substantiated by supporting documentation. The scope included all corresponding records applicable to the expenses that Freedom Community Enterprise Inc. submitted to the City for reimbursement. The total amount of the grant was \$140,000.00

Freedom Community Enterprise provided supporting documentation for the purchase of property, construction supplies used to renovate the property and labor costs.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the International Standards for the Professional Practice of Internal Auditing. 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.

The recommendation presented in this report includes the more significant area of potential improvement that came to our attention during the course of the examination, but does not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

In general, the results of the review indicate that NEAD and Freedom Community utilized grant funding in compliance with the terms of the agreement. OPI identified valid and documented expenses exceeding the awarded \$140,000. Based on our review of cancelled checks, we determined that payments were made by both NEAD and Freedom Community. Northeast Area Development checks for construction costs were in the amount of \$38,958.48 and Freedom Community checks totaled \$71,828.20. Additionally, we noted two credit card purchases totaling \$106.54. The total of these amounts, \$110,894, is less than the \$112,165 total amount submitted by the grantee for reimbursement. The difference, \$1,271 is the result of a line item where the check number and the amount were transposed.

Additionally, we noted that payments to Home Depot exceeded the total invoices by \$7,058. The total amount substantiated in expenses for construction is therefore, \$103,836.

OPI examined invoices and cancelled checks related to labor costs. NEAD wrote all checks paid to laborers. The amount submitted by NEAD for reimbursement totaled \$31,156. Checks examined totaled \$29,295. OPI did not find cancelled checks for five payments, all to one subcontractor. Based on the invoices provided these five payments totaled \$1,746. Three other payments included a total of \$1,115 for reimbursement of materials purchased, not labor costs. Excluding these two amounts, OPI substantiated \$29,295 in labor costs.

The following chart summarizes the amount requested for reimbursement and the amount OPI substantiated with the supporting documents provided.

<u>Freedom Community Enterprise Inc. Grant</u> <u>Summary of Expenses</u>			
	<u>Requested</u>	<u>Substantiated</u>	<u>Difference</u>
Property Acquisitions	\$150,000.00	\$ 72,033.00	\$77,967.00
Construction Costs	112,165.88	103,836.00	8,329.88
Labor Costs	<u>32,155.73</u>	<u>29,295.00</u>	<u>2,860.73</u>
	<u>\$294,321.61</u>	<u>\$205,312.00</u>	<u>\$89,157.61</u>

In May of 2013, the City paid Freedom Community Enterprise \$70,000. In April 2015, a final invoice submitted to the City totaled \$224,321.61. The total grant awarded was \$140,000. The City paid the remainder of the grant, \$70,000 in April 2015. OPI was able to substantiate \$205,312 in expenses. The combined expenses of NEAD and Freedom Community exceed the \$140,000 reimbursed by the City grant. Overall, the records provided support the amount paid of \$140,000.

However, we noted the following deficiency in administrative and internal control that may require management attention.

A. Subcontractor Invoices Incomplete

Subcontractors submitted invoices with hours worked and signature for payment. We noted fifty-nine payments. Fifty-one of the fifty-nine payments did not include detail of the work performed. The eight detailed invoices included labor expenses not related to this grant agreement but related to other NEAD projects and properties. All labor invoices should include work performed to ensure that labor was utilized on the grant awarded.

◆ RECOMMENDATION

City personnel should ensure that the grantee complies with all terms of the agreement and retains complete supporting documentation as required. Grantee should submit only those expenses that related to the grant project defined in the agreement.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Neighborhood Business Development follows.



April, 24, 2020

Timothy Weir
City of Rochester
Office of Public Integrity
85 Allen Street
Rochester, New York 14614

RE: Audit Response
Freedom Community Enterprise Inc. Grant Review

The City of Rochester's Office of Public Integrity conducted an audit of the Freedom Community Enterprise Inc. Grant that City staff contractually managed as part of our Community Development Block Grant (CDBG) and the associated category of Focus Investment Strategy (FIS). Neighborhood and Business Development staff have reviewed the findings of the audit and have prepared the following in responses to those findings.

Finding:

Fifty-one of the fifty-nine invoices from the sub-contractors did not include detail of work performed. The remaining eight that were completed included work for Northeast Area Development (NEAD) that was outside of the scope of this agreement and performed at different NEAD properties.

Action Steps/Timeframe:

Although, as noted on page seven of the audit report, the total substantiated expenses were valued at \$205,312, which is more than the total value of the grant award of \$140,000, and while it is duly noted on page 6 of the report that the contractor utilized the grant funding in compliance with the agreement, we agree and support that we need to take the following steps to ensure better grant administration.

1. Ensure all invoices capture the specific work activity for which the funding is being requested.

To this end I have immediately instructed NBD Grant Management staff to only process invoices where there is a clear description of the work activity and verification that the detailed work activity is properly covered by the contract.

2. Only accept and include in the file invoices that are clearly covered in the grant award contract.

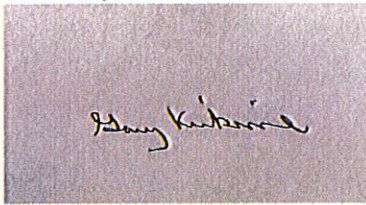
To this end I have immediately instructed NBD Grant Management staff to not accept non-grant covered invoices, even if those invoices supersede the value of the grant award or are in addition to



the work covered under the contract. Only invoices where the detailed work activity is in line with the contractual scope of work will be accepted and placed into the file.

In summary, the City of Rochester's Department of Neighborhood and Business Development manages the federal entitlement funding which is inclusive of CDBG, Emergency Solutions Grant (ESG), Housing Opportunities for People with Aids (HOPWA) and the Home program. Collectively, the department is managing in excess of thirteen million dollars in annual allocations as part of these federally funded programs. In addition to internal auditing, each of these programs are subject to monitoring/auditing by HUD. NBD spends a great deal of time dedicated towards ensuring the associated processes and polices are in line with programmatic federal laws and expectations. Like all NBD programs and processes we are always attempting to improve the efficiency and effectiveness of the programs, including our ability to ensure quality control. We believe the steps outlined in this response are in line with those aspirations.

Sincerely,

A rectangular area containing a handwritten signature in dark ink on a light-colored background. The signature appears to read "Gary Kirkmire".

Gary Kirkmire
Commissioner

xc: Lovely A. Warren, Mayor
James Smith, Deputy Mayor
Dana Miller, NBD Deputy Commissioner
Anne Dasilva Tella, Assistant NBD Commissioner
Carol Wheeler, NBD Manager of Housing