



**Internal Audit Committee
of
Brevard County, Florida**

Internal Audit Review of

**Community Development Block Grant Program
(CDBG)**

**Prepared By:
Internal Auditors of Brevard County
January 10, 2002**

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January 10, 2002

The Audit Committee of
Brevard County, Florida
Viera, Florida 32940-6699

Pursuant to the provisions of Section 125.01(1)(s), Florida Statutes: Article V, Section 16 and Article VIII, Section 1(d) of the Constitution of the State of Florida: and Article 4 Section 4.2.1 of the Brevard County Home Rule Charter, and the approved 2001/2002 internal audit plan, we hereby submit our internal audit report covering the Community Development Block Grant program (CDBG). We will be presenting this report to the Audit committee at the next scheduled meeting on January 23, 2002.

Our report is organized in the following sections:

Background	This provides an overview of the CDBG program and the related compliance requirements.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Issues and Recommended Action	This section gives a description of the issues as well as the impact and recommended action. Managements response has been incorporated into this section as well.

Follow-up to the issues and management response identified in this report will be conducted in two phases:

- County Management will follow-up with the person responsible on a quarterly basis and report to the audit committee using the approved format.
- The Internal Auditors will conduct a formal follow-up within 6 months of the issued report and report back to the audit committee at the regularly scheduled meeting.

We would like to thank the Housing & Human Services Department and all those involved in assisting the Internal Auditors regarding this report on CDBG. We found the CDBG and support services staff to be dedicated and diligent in their mission to provide the citizens of Brevard County with viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for persons of low and moderate income.

Respectfully Submitted,

INTERNAL AUDITORS

Background

Background

What is the CDBG program?

The CDBG program is authorized by Title I of the Housing and Community Development Act of 1974, as amended. It is one of the nation's largest Federal grant programs and is administered by the Department of Housing and Urban Development's (HUD) Community Planning and Development Office. It provides eligible metropolitan cities and urban counties (called "entitlement communities") with annual grants that they can use to revitalize neighborhoods, expand affordable housing and economic opportunities, and/or improve community facilities and services, principally to benefit low- and moderate-income persons. Grant amounts are determined by a dual formula based on the community's population, population growth lag, the number of persons in poverty, the extent of over-crowded housing, and the age of housing.

CDBG activities are initiated and developed at the local level based upon a community's perceptions of its local needs and priorities. Each entitlement grantee receiving CDBG funds is free to determine what activities it will fund as long as certain requirements are met.

Eligible activities

Eligible activities include:

- acquisition and disposition of real property
- public improvements and facilities (e.g., senior citizens center, recreation center, day care center)
- clearance
- public services (e.g., child care, health care, job training/education programs, recreation programs, drug abuse counseling/treatment, and services for homeless persons)
- interim assistance
- relocation payments/assistance
- rehabilitation of residential, commercial/industrial, or other nonprofit owned, nonresidential buildings
- historic preservation
- lead based paint hazard evaluation and reduction
- code enforcement
- special economic development
- microenterprise assistance
- homeownership assistance
- urban renewal completion
- technical assistance to increase capacity of public/private non-profits
- assistance to institutions of higher education
- program administration costs related to planning and execution of CDBG assisted activities

Eligible activities may be carried out by the grantee, or through the use of contractors or subrecipients, or through the use of Community Based Development Organizations (CBDOs).

In addition to being an "eligible activity," CDBG activities must meet one of the following broad national objectives:

- benefit low- and moderate-income people
- aid in the prevention or elimination of slums and blight
- meet a community development need of particular urgency

Background - continued

Funding Requirements

Each grantee must develop and submit a 3- to 5-year Consolidated Plan, an annual Action Plan, and certain certifications to HUD. If the grantee makes a complete submission within the established deadlines, the Department will make a grant award.

The Consolidated Plan (the Plan) was developed by HUD in 1994 to combine the application and submission requirements for the CDBG program, the HOME Investment Partnerships (HOME), Emergency Shelter Grants (ESG), and Housing Opportunities for Persons with Aids (HOPWA). The Plan provides the framework for the government to (1) identify housing, homeless, community, and economic development needs and resources, and (2) develop a strategic plan for meeting those needs. In the Plan, the grantee identifies its goals for these programs, as well as for housing programs. The Plan must include certifications that not less than 70% of the CDBG funds received, over a one, two, or three year period specified by the grantee, will be used for activities that benefit low- and moderate-income persons and that the grantee will affirmatively further fair housing.

The Action Plan is a one-year plan that jurisdictions must have to carry out their long-term Consolidated Plan. The Action Plan must specify all the resources a jurisdiction has to meet housing and community development needs for the upcoming year and how the jurisdiction plans to spend those resources.

The grantee must also submit an annual performance report (CAPER) 90 days after the program year ends. The CAPER shows what the jurisdiction actually did in the previous year to meet housing and community development needs. The CAPER specifically requires information on how the actual use of CDBG funds compared with the priorities set out in the Consolidated Plan.

Citizen's participation plan

Every jurisdiction must develop and follow a detailed citizen's participation plan which provides for and encourages participation by low- and moderate-income people who are residents of low- and moderate-income neighborhoods. The plan must provide citizens with reasonable and timely access to information on local meetings and records regarding the grantee's proposed and actual use of CDBG funds, public hearings to give citizens a chance to state community needs and ask questions and comment on proposed and past uses of CDBG funds, and provide for timely written answers to complaints and grievances. There must be adequate public notice of hearings, and they must be held at times and locations convenient to people who are likely to be affected by CDBG-funded projects.

Ineligible Activities

Ineligible Under Any Circumstance

- buildings or portions thereof used for the general conduct of government
- general government expenses
- political activities

Generally Ineligible

- purchase of equipment
- operating and maintenance expense associated with repairing, operating, or maintaining public facilities, improvements, and services
- new housing construction
- income payments

Background - continued

Grantee's responsibilities

Each grantee must ensure compliance with statutory and regulatory requirements. The program regulations include, but are not limited to:

- compliance with national objectives
- ensuring that over a period of time specified by each grantee but not to exceed three years, that not less than 70 percent of the aggregate of CDBG expenditures shall benefit low- and moderate-income persons
- environmental review procedures must be completed for each activity or project
- costs whether charged on a direct or an indirect basis, must be in conformance with OMB Circulars A-87, A-122, and A-21, as applicable

No more than 20 percent of grant (plus program income) can be spent for planning and administrative costs. No more than 15 percent of the grant (plus program income received during the preceding program year) can be spent for public service activities.

The grantee must have procedures in place to help ensure that (1) CDBG funds are only used for activities that fall under an authorized category of basic eligibility, (2) activities are properly classified, and (3) and adequate documentation is maintained.

In order to ensure that HUD can carry out its statutory responsibilities to review grantee performance to determine that program requirements have been met, the grantee must maintain certain records. The records must provide a full description of each activity that is selected for assistance, including its location, the amount of CDBG funds budgeted, obligated and expended for the activity, and the provision of the regulations under which the activity is eligible. The files must document all relevant eligibility considerations that apply. The OMB Circulars require recipients of Federal assistance to keep source documentation to justify all expenditures.

Staffing

Key personnel involved in the CDBG program are as follows:

Name	Title
Gay N. Williams	Director, Housing & Human Services Department
J.B. Kenna	Operations Manager, Planning & Programming
Zoila Villanueva	Support Services Supervisor
Chenita Joiner	Community Development Supervisor
Sam Dettra	Community Projects Supervisor
LaVerta Spiller	Special Projects Coordinator II
Leslie Singleton	Special Projects Coordinator II
John Mazziotti	Special Projects Coordinator II

Schedule of funding

Following is a schedule of CDBG expenditures for the last 3 years:

Fiscal year	Amount
1998-1999	\$2,550,401
1999-2000	\$1,505,979
2000-2001	\$2,553,942*

* Preliminary as of 11/30/01

Objectives and Approach

Objectives and Approach

Objectives

The internal audit objectives in the CDBG audit area are comprehensive in scope in order to provide assurance over CDBG compliance.

<input type="checkbox"/> Identify procedures to ensure that only eligible activities are undertaken and determine whether Federal awards were expended only for allowable activities.
<input type="checkbox"/> Identify procedures to ensure that only allowable costs are charged to the program and determine whether the Department complied with the provisions of OMB Circular A-87 cost principles.
<input type="checkbox"/> Determine whether procedures minimizing the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement are adequate.
<input type="checkbox"/> Evaluate the adequacy of the procedures to ensure that contractors and subcontractors are paid prevailing wage rates for projects covered by the Davis-Bacon Act.
<input type="checkbox"/> Determine whether proper equipment records are maintained and that disposals of any equipment acquired under Federal awards is in accordance with Federal requirements.
<input type="checkbox"/> Determine whether procurements were made in compliance with the provisions of the A-102 Common Rule and other procurement requirements specific to the award.
<input type="checkbox"/> Determine whether required reports include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with program requirements
<input type="checkbox"/> Determine that the compliance requirements have been identified to subrecipients and that subrecipients are being adequately monitored.
<input type="checkbox"/> Determine whether the grantee has developed and implemented a citizen's participation plan.

Approach

Our audit approach consisted of four phases:

Understanding and Documentation of Process

During phase one, we held an entrance conference with the Director of Housing & Human Services and CDBG personnel to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We then conducted interviews with responsible CDBG personnel and various department heads, which have responsibilities, related to CDBG compliance and documented their role in the process.

Objectives and Approach

Population and Sample Determination

We selected a sample of fiscal year 2001 CDBG program expenditures that were recorded as of the date of our audit. The sample was selected in a manner that would encompass all of the program's activities. We selected a separate sample of subrecipients in order to test compliance with subrecipient monitoring requirements.

Detailed Testing

The purpose of this phase was development of applicable tests based on our understanding of the program's compliance requirements. Our procedures included obtaining an understanding of the procedures in place, assessing their effectiveness in ensuring compliance with applicable requirements, and testing compliance.

Our procedures included, but were not limited to, testing:

- | | |
|---|---|
| <input type="checkbox"/> activities allowed or unallowed | <input type="checkbox"/> procurement |
| <input type="checkbox"/> allowable costs/cost principles | <input type="checkbox"/> suspension and debarment |
| <input type="checkbox"/> cash management | <input type="checkbox"/> reporting |
| <input type="checkbox"/> Davis-Bacon Act | <input type="checkbox"/> subrecipient monitoring |
| <input type="checkbox"/> equipment and real property management | <input type="checkbox"/> citizen participation |
| <input type="checkbox"/> period of availability of funds | |

Reporting

During this phase, we summarized our findings related to CDBG compliance, based on our detailed testing, into a report format. Many of the issues that we have noted relate to costs and procedures that are not under the control of the CDBG function but impact the CDBG program.

Issues and Recommended Actions

Issue # 1	Allowable Costs
	<p>CDBG may be able to re-distribute charges in the following areas in order to recover additional costs:</p> <ul style="list-style-type: none"> ❑ CDBG personnel indicated that the salary of the Operations Manager was not being directly charged to CDBG or other awards. Although his salary is probably being allocated indirectly through the indirect cost calculation, the amount calculated in this manner would be significantly less than if it were charged directly to the programs that he manages. ❑ CDBG personnel indicated that the allocation of the salaries and wages of the Director of Housing & Human Services and other support staff to the grants, was less than the actual time spent on the program. ❑ The method used to calculate the costs of other government services to be charged to CDBG, produced an amount that was considerably less than the amount calculated for FY 2000 in accordance with the central services cost allocation plan developed for that year. ❑ Although our internal audit did not include the SHIP and HOME programs, it appeared from our test work that these programs were not being allocated departmental and interdepartmental costs in the same manner as the CDBG program, and therefore, may not be recovering all of their costs. <p>Impact</p> <p>The County may not be recovering all costs of the services it provides to CDBG and other reimbursable awards.</p> <p>Recommended Action</p> <p>We recommend that the County implement procedures to adequately identify costs that can be charged directly and indirectly to its reimbursable awards in accordance with the applicable cost principles and that all programs be charged in a consistent manner.</p>
	Management Response
Response	The Housing & Human Services Department will consider as it is presently reassessing current cost allocations. The Department will establish written procedures outlining internal departmental policy/procedures in accordance with OMB Circular A-87 for billing indirect departmental costs, salary, wages and other costs related to CDBG and other reimbursable awards.
Time frame	March 29, 2002
Person Responsible	Gay N. Williams, Director

Issue # 2

Central Service Cost Allocation Plan

The central services cost allocation plan provides a process whereby central service costs, such as motor pools, computer centers, purchasing, and accounting, can be identified and assigned to benefited activities. All local governments claiming central service costs must develop a plan in accordance with the requirements described in OMB Circular A-87. The plan should be prepared within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs.

We noted the County's most recent central service cost allocation plan (CAP) is for FY2000. This CAP was not used to charge central service costs to CDBG for FY2001. We noted instead that CDBG was charged an indirect rate that was computed by the Budget Director as a means of allocating certain County administrative costs.

Included in the indirect rate were the costs of the following departments:

- | | |
|---|---|
| <input type="checkbox"/> County Manager | <input type="checkbox"/> County Commissioners |
| <input type="checkbox"/> Budget | <input type="checkbox"/> County Attorney |
| <input type="checkbox"/> Internal Audit | <input type="checkbox"/> Human Resources |
| <input type="checkbox"/> Clerk to the Board | <input type="checkbox"/> Purchasing/Property |
| <input type="checkbox"/> County Finance | |

The general costs of a government are unallowable (OMB Circular A-87 Attachment B Section 23) and also categorically ineligible under the CDBG program. These costs include the salaries and expenses of:

- Chief executive officer
- County commissioners
- Judiciary and prosecutorial activities
- Other government services provided to the general public

We also noted the allocated costs were FY1999 budgeted amounts, not actual expenditures for this base year. Using budgeted costs (which usually exceed actual) could produce a "profit" (charging the Federal government more than actual cost) and that unallowable costs, as delineated in OMB Circular A-87, were not eliminated from the indirect cost pool before performing the computation.

Impact

The allocated general government costs are categorically ineligible and unallowable and are not reimbursable.

The costs of central services not included in an annual cost allocation plan are not permitted to be reimbursed and therefore, the County may not be able to recover the costs of providing these services.

Issue # 2	Central Service Cost Allocation Plan (continued)
	<p>Recommended Action</p> <p>We recommend the County implement appropriate procedures for developing an annual central service cost allocation plan in accordance with OMB Circular A-87 for fiscal year 2001 and annually, thereafter.</p> <p>We also recommend the County reduce its FY2001 reported expenditures by the amount of the indirect costs that were not calculated in accordance with OMB Circular A-87.</p>
	Management Response
Response	<p>Budget Office Response: Indirect Cost</p> <p>The Clerk's Office (Internal Audit) was tasked with providing the Cost Allocation Plan in accordance with OMB Circular A-87. This task was not transitioned to the Budget Office or the Contracted Internal Auditor with the outsourcing of the Internal Audit function. It appears that if the task cannot be outsourced the Budget Office is the most appropriate agency to develop the plan. In the absence of an updated plan County agencies have been utilizing the County's "Indirect Cost" Allocation plan or as referenced by this report the latest Cost Allocation plan.</p> <p>In addition to development of the "Indirect Cost" Allocation plan, the Budget Office can also undertake the Cost Allocation Plan responsibilities beginning with development of the FY 2002-2003 Budget. As a secondary priority the Budget Office will develop Cost Allocation plans for the FY2000-2001 and FY2001-2002 and work with the appropriate agencies to reconcile reported expenditures in accordance with OMB Circular A-87.</p>
Time frame	<p>Fiscal year 2002 March 18, 2002</p> <p>Fiscal year 2000-2001 June 3, 2002</p>
Person Responsible	<p>Stockton Whitten, Assistant County Manager Management Services</p>

Issue # 3

Interdepartmental Charges

We noted the CDBG program is being charged with many costs originating from other departments throughout the County. Based upon the types of costs we encountered during our testwork and our discussions with some of the originating departments, the provisions of OMB Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments” are not being met.

We also noted the CDBG function, which is part of the Housing & Human Services Department, shares support services with the other functions in the Department. CDBG employees work on other programs and these other programs share office space, equipment, and supplies with CDBG. It appears that these joint and common costs are not being charged to the program on the basis of relative benefits received.

As a recipient of Federal funds, the County is required to have internal controls designed to provide reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles.

The following interdepartmental and departmental charges appear to not comply with OMB Circular A-87:

Road & Bridge Department Equipment Usage Fees

The Road & Bridge Department charges CDBG equipment usage fees for project construction. The use charge is based upon rental fees published in the Association of Equipment Dealers (AED) Green Book. The book’s average rental rates include depreciation and a mark up for profit. In addition, our testwork indicated the hours charged to the project were based upon the related employee’s time allocated to the project and not necessarily the time the equipment was used on the project. We also noted that in some cases, a significant portion of the total project costs were due to these equipment charges.

Pursuant to OMB Cost Circular A-87 Attachment B Section 15, “compensation for the use of fixed assets on hand may be made through depreciation or use allowances...The computation of depreciation or use allowances shall be based upon the acquisition cost of the assets involved. Where the use allowance method is followed, the use allowance for equipment will be computed at an annual rate not exceeding 6 2/3 percent of the acquisition cost.”

In addition, the Road & Bridge Department is not operating as an internal service fund that is included as a part of a annual cost allocation plan, and therefore, its billable rates would not be in accordance with the applicable cost principles.

Issue # 3

Interdepartmental Changes

Facilities Construction Department Administration Fees

We noted the Facilities Construction Department is charging a floating 2.5 to 4% administration fee to the cost of the project. The percentage applied is based upon the dollar amount of the original budget, with smaller projects being charged a higher fee. The percentage is applied to the total budgeted cost during the course of the project and adjusted at project completion to final total cost charged to the project. This fee was enacted by County Policy and was not based upon actual cost.

Pursuant to OMB Cost Circular A-87 Attachment A Section G, "the costs of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rata share of indirect costs. A standard indirect cost allowance equal to ten percent of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service."

Facilities Construction is not direct charging any salaries. Therefore, they do not appear to fall under this exception for charging an indirect cost rate.

Road & Bridge Department Administration Fees

We noted the Road & Bridge Department is adding an administrative fee to its construction projects. The fee appears to be 15%, but we noted one project with a 7% fee. This percentage is applied to the total of salaries, benefits, equipment fees, materials, and other directly charged costs. Per discussion with the department, this fee is not based upon actual costs and may result in a profit.

Road & Bridges is applying a rate, in excess of the aforementioned ten percent, to a base that includes unallowable costs such as overtime, fringe benefits, equipment fees, materials, and other costs. In addition, the A-102 Common Rule states that grant funds may only be used for "reasonable fees or profit to cost-type contractors but not any fee or profit (or other increment above allowable cost) to the grantee or sub grantee."

Joint and Common Departmental Costs

Our test work and discussions with CDBG personnel indicated that many common and joint costs are allocated to CDBG in a manner that may not reflect the relative benefits received as required by the cost principles. CDBG appears to bear the greatest burden. We noted often-times interdepartmental charges, such as general government overhead, space rental, and telecommunication charges, were only charged to CDBG. We also noted that even when invoices were allocated between programs, the percentages used were not consistent or calculated based upon relative benefits received. During our testing, we noted an instance whereby a supply invoice was equally charged to CDBG and SHIP, with no allocation to HOME. Per CDBG, HOME was not charged because its budget was fully expended at the time. We also noted that CDBG was charged 100% for a training class fee for a support services employee.

Issue # 3	Interdepartmental Charges (continued)
	<p><u>Other Interdepartmental Charges</u></p> <p>We noted numerous interdepartmental charges posted to the CDBG accounts. The support for most of these was insufficient to determine allowability.</p> <p>Since the County has not developed a current central service cost allocation plan nor indirect cost rates, these fees and charges are not in accordance with the cost principles, which require a plan to be in place to bill these types of costs.</p> <p>Impact</p> <p>To be allowable, costs must be necessary, reasonable, and allocable to the Federal program in accordance with the cost principles. In addition, any cost allocable to a particular Federal award under the principles of the cost circular may not be charged to other Federal awards to overcome fund deficiencies. Therefore, the costs that are not calculated in accordance with the cost principles nor supported by a reasonable allocation method may be disallowed and the County would have to reimburse HUD.</p> <p>Recommended Action</p> <p>We recommend either (1) all departments involved in charging costs to the CDBG program receive training on the cost principles or (2) only those responsible for the CDBG program receive training on the cost principles and they be given full responsibility and authority for identifying allowable and unallowable costs.</p> <p>The County should review all of its interdepartmental service charges and fees and develop a cost allocation plan and appropriate indirect cost rates. It should also develop a departmental indirect cost rate which is adequately supported, consistently applied and in accordance with the cost principles.</p> <p>We recommend the following control procedures should be implemented to ensure that only allowable costs are charged to the program:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Procedures for comparing source documentation to lists of allowable and unallowable costs before approving and processing should be implemented. <input type="checkbox"/> CDBG management should review charges to the program and verify eligibility and allowability. <input type="checkbox"/> Questionable costs should not be processed for reimbursement until a determination can be made as to the allowability and appropriate documentation is obtained.

<i>Issue # 3</i>	<i>Interdepartmental Charges (continued)</i>
	<i>Management Response</i>
Response	<p>The Housing and Human Services Department will:</p> <ol style="list-style-type: none"> 1. Adhere to and support any cost allocation plan established for a central services indirect cost rate and indirect and direct interdepartmental billing as developed by the Budget Office taking into consideration OMB Circular A-87. 2. Establish written procedures in accordance with OMB Circular A-87 outlining internal procedures for billing indirect departmental costs, salary, wages and other costs related to reimbursable awards. 3. Coordinate and schedule HUD training of appropriate staff on cost principles (OMB-87). We will also offer all such training to Budget and Finance Office personnel.
Time frame	March 29, 2002
Person Responsible	Gay N. Williams, Director

<i>Issue # 4</i>	<i>Property Records</i>
	<p>We noted the County's property records did not document the percentage of Federal participation in the cost of the property and the condition of the property as required by the A-102 Common Rule.</p> <p><i>Impact</i></p> <p>Property records pertaining to property purchased with Federal funds must be complete in order for the County to comply with the administrative requirements for the use of Federal property.</p> <p><i>Recommended Action</i></p> <p>We recommend the County implement procedures to add the required information to its property records.</p>
	<i>Management Response</i>
Response	IAW OMB A-102 The Housing and Human Services Department will coordinate efforts with Property Control to establish a written procedure to assure the condition of property and federal source are included on property lists generated by Property Control.
Time frame	March 29, 2002
Person Responsible	Gay N. Williams, Director

Issue # 5	Subrecipient Agreements
	<p>We noted one of the capital projects was subawarded to a governmental entity. The subaward document included references to regulations and cost principles applicable to nonprofits rather than governments. In addition, although the sub-recipient agreements reference audit regulations for OMB Circular A-133, we believe the details of the audit requirements should also be included in the document.</p> <p>The public service subrecipient agreements also did not provide the subrecipients with the audit requirements in accordance with the single Audit Act and OMB Circular A-133 nor did they include the applicable CFDA title and number.</p> <p>We noted one of the public service subrecipient agreements was with another County department. Although monitoring the project as if it were a subrecipient enhances the likelihood for program compliance, we believe it should not be identified as a subrecipient in CDBG program reports. The County cannot be a subrecipient to itself and the grant award is between the County as a whole, not CDBG and HUD.</p> <p>Impact</p> <p>A grantee is required to ensure that a subrecipient is aware of all relevant information relating to the administration of the grant in order to ensure its compliance.</p> <p>Recommended Action</p> <p>We recommend that the department review all of its subaward agreements to ensure they contain all requirements applicable to each particular subgrantee, including a detail of the audit requirements. Amendments to current awards should be made, as necessary. Future awards agreements should be subject to a review process to ensure completeness.</p>
	Management Response
Response	The Housing & Human Services Department will refine existing checklists and develop and modify existing written procedures to assure contract requirements are consistently applied and reviewed.
Time frame	March 29, 2002
Person Responsible	Gay N. Williams, Director

Issue # 6	Reconciliations
	<p>We were unable to reconcile the expenditure (draws) reported in IDIS to the accounting records appearing in SAP for FY 2000 and FY 2001. The two systems are not being reconciled by CDBG personnel. The Finance Department is reconciling SAP recorded expenditures to draw receipts, but not to IDIS and not in a timely manner.</p> <p>We noted program year draws in IDIS for FY2000 were \$76,825 higher than expenditures reported in SAP, even though CDBG expenditures were reconciled to CDBG revenues in SAP.</p> <p>As of November 30, 2001, Finance had only reconciled CDBG expenditures to CDBG draw receipts through August 31, 2001, with a small outstanding difference. We tried to reconcile the amounts recorded in SAP as of that date to the FY2001 drawdowns reported in IDIS though the same date. The IDIS drawdowns were \$58,322 less than the amounts reported in SAP, probably as a result of accruals not being recorded in the same year.</p> <p>It appears expenditures reported to HUD in FY2000 were not recorded in the County's accounting records until FY2001.</p> <p>Impact</p> <p>The County's accounting records do not support the expenditure amounts reported to HUD. Therefore, these costs could be disallowed.</p> <p>Recommended Action</p> <p>We recommend County Finance work with the Department to implement procedures to ensure the two systems are reconciled on a monthly basis.</p>
	Management Response
Response	The Housing & Human Services Department will work with County Finance to implement procedures to ensure the systems are reconciled. County Finance has advised that they will provide quarterly reconciliations.
Time frame	Immediate
Person Responsible	Gay N. Williams, Director

Issue # 7	Project File Maintenance
	<p>During our detailed testwork, we encountered difficulties in tracking all of the support documentation required to be maintained for audit. A complete record of the project was not maintained in one place. Some documents were kept by Road & Bridge and not sent to Facilities Construction, even though they were administering the project. Some documents were with Facilities Construction, some with Purchasing, and others were on file in CDBG. When a project was completed, Facilities Construction would send the file to the “user” department. In one case, the “user” department was not CDBG, so the file was sent to another department in the County. At times we were told by one department that a second department had a item, only to be told by the second department that a third department kept the item.</p> <p>Impact</p> <p>Grantees are required to maintain certain information relating to activities undertaken, including the location, the amount of CDBG funds budgeted, obligated and expended, the provision of the regulations under which the activity is eligible, a detailed history of procurements, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price, and adequate documentation to support the allowability of costs, such as canceled checks, invoices, receiving reports and allocation bases.</p> <p>When these records are kept in different locations or not assigned a specific location and/or caretaker, the possibility of their not being available for audit or being lost or disposed of before the end of the required retention period is enhanced.</p> <p>Missing records could result in costs or activities being unallowed and the County would have to reimburse HUD. The amounts could be significant.</p> <p>Recommended Action</p> <p>We recommend procedures be implemented to consolidate all required documentation in one location. For items that cannot be centralized, the primary file should include a checklist documenting where the information is being kept. In addition, all departments and personnel retaining the required documentation should be informed of the required records retention requirements to ensure the records are available for audit upon request.</p>
	Management Response
Response	<p>A centralized file system was ordered last FY and received in September 2001. This system will serve as the central filing point for CDBG files when system implementation is complete.</p> <p>Additionally, the Housing & Human Services Department will develop a written document control, file management procedure to address the many and varied federal, state and local records management requirements.</p>
Time frame	June 28, 2002
Person Responsible	Gay N. Williams, Director

Issue # 8

Salaries and Wages

Charges to Federal Awards for salaries and wages, whether direct or indirect, must be based upon payrolls documented in accordance with the practice of the governmental unit and approved by a responsible official. When employees work on multiple activities, a distribution of their wages must be supported by personal activity reports. These reports must reflect the after-the-fact distribution of the activity of the employee, signed by the employee, prepared at least monthly, and coincide with one or more pay periods. We noted the following with regards to salaries and wages.

- ❑ Salaries of the Director and support services personnel are allocated at various times to the CDBG, HOME, and SHIP programs. The items we tested covered seven pay periods, and were calculated by allocating a set percentage to these three programs. The allocation was not based upon signed personal activity reports and was not performed at least monthly.
- ❑ A lump sum annual/sick pay payment for an employee that resigned was charged to CDBG. Payments for unused sick leave when an employee retires or terminates are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit.
- ❑ Road & Bridges uses a separate system for recording the salaries and wages it charges on construction contracts. This system is not reconciled to the County's payroll system, so we were unable to determine if the wages being charged were based upon documented payrolls. Also, departmental employees complete timesheets, but they are not certified by the employee or signed by a responsible government official.
- ❑ CDBG employees complete weekly time reports which are used to input information into the County's payroll system. The system then automatically charges a single amount to CDBG for all employees for that pay period. No reports were generated to verify that the salary and wages being charged to the program were reconciled to the signed time reports. In order to verify this, we had a special report generated. The results indicated that one of the charges was not supported by a signed time report.

Impact

Charges for some salaries and wages were not adequately supported in accordance with cost principles and adequate control procedures were not in place to ensure the accuracy of these charges. Therefore, these costs may be disallowed and the County would have to reimburse HUD.

Issue # 8	Salaries and Wages (continued)
	<p data-bbox="513 275 846 310">Recommended Action</p> <p data-bbox="521 344 846 373">We recommend the following:</p> <ul data-bbox="532 407 1333 892" style="list-style-type: none"> <li data-bbox="532 407 1333 499">❑ Director and support personnel complete personal activity reports in accordance with the cost principles and that the programs be charged in accordance with these reports. <li data-bbox="532 527 1333 590">❑ Procedures be implemented to ensure that future lump sum payments are charged to administrative cost pools. <li data-bbox="532 617 1333 709">❑ Road & Bridges use the County’s payroll system to direct charge salaries to projects or implement a system to reconcile their separate system to the County’s payroll system on a regular basis. <li data-bbox="532 737 1333 892">❑ Implement a procedure to generate reports that detail the composition of payroll charges to Federal programs and forward them to CDBG as support for the payroll charges posting to CDBG. In addition, CDBG would need to implement procedures to test these reports on a sample basis to ensure the correct amounts are being charged to the program.
	<p data-bbox="513 932 867 968">Management Response</p>
<p data-bbox="358 974 483 1003">Response</p>	<p data-bbox="513 974 1333 1031">The Housing & Human Services Department will work with County Finance and comply with any procedures developed to address these issues.</p>
<p data-bbox="326 1071 483 1100">Time frame</p>	<p data-bbox="513 1071 630 1100">Immediate</p>
<p data-bbox="220 1134 483 1163">Person Responsible</p>	<p data-bbox="513 1134 797 1163">Gay N. Williams, Director</p>

<i>Issue # 9</i>	<i>Suspension and Debarment</i>
	<p>CDBG appears to obtain verbal but not written certifications from its subrecipients.</p> <p>Contractors receiving individual awards for \$100,000 or more and all subrecipients are required to certify in writing that the organization and its principals are not suspended or debarred. Grantees may rely upon the certification unless they know that the certification is erroneous.</p> <p><i>Impact</i></p> <p>CDBG does not appear to have sufficient written documentation to be in compliance with this requirement.</p> <p><i>Recommended Action</i></p> <p>We recommend CDBG include these certifications in all subrecipient agreements and that Purchasing obtain written certifications on all procurement contracts in excess of \$100,000.</p>
	<i>Management Response</i>
Response	The Housing & Human Services Department will establish written procedures and update checklists and RFP's (applications) for the Public Service and Public Facility contracts that include Suspension and Debarment certifications.
Time frame	March 29, 2002
Person Responsible	Gay N. Williams, Director

Issue # 10	Departmental Policies
	<p>Although the CDBG function appears to have some written policies and checklists, they do not have a formal and complete policies and procedures manual covering all aspects of the function.</p> <p>Good internal controls require procedures be documented and that employees follow the procedures in the performance of their assigned duties.</p> <p>Impact</p> <p>Written policies and procedures facilitate consistency in performance, establish standards for performance measurement, and allow for smoother employee transitions. The lack of such policies may cause the County to be in noncompliance with its Federal program requirements.</p> <p>Recommended Action</p> <p>We recommend that the Department develop a policies and procedures manual.</p>
	Management Response
Response	<p>The Housing & Human Services Department, including CDBG has numerous written procedures in place. The lack of comprehensive, consistent and appropriately updated and reviewed procedures is a deficiency noted by management this past year.</p> <ol style="list-style-type: none"> 1. The Housing & Human Service Department will develop a quality assurance plan to assure that critical processes have written procedures and checklists in place to assure uniformity and compliance. Such a plan will include a process for review and updating of procedures. 2. The Housing & Human Services Department will assign a staff member to serve as a Quality Assurance Coordinator and supervisors and managers will take an aggressive role in assuring that existing procedures are put in writing.
Time frame	<ol style="list-style-type: none"> 1. March 29, 2002 2. Immediate
Person Responsible	Gay N. Williams, Director

Issue # 11	<i>Federal Cash Transactions Report</i>
	<p>The Federal Cash Transactions Report is used by the grantor to monitor the time between the receipt and expenditure of funds by the recipient is minimized. If the grantee is on a reimbursement basis, the cash should be disbursed before the draw request is made.</p> <p>We looked at several federal cash transaction reports and noted CDBG is reporting cash receipts for the quarter based upon the day the draw request is made in IDIS rather than on the date the cash is received. CDBG also reports cash disbursements for the quarter equal to the cash draws, indicating a zero Federal funds cash balance. This reported disbursement amount does not equal the amount of expenditures recorded in SAP, nor does it reflect the actual amount of Federal funds disbursed during the quarter. In addition, at year-end, draw requests are made based upon accrued expenditures, not on actual cash disbursements in SAP.</p> <p><i>Impact</i></p> <p>There could be a timing difference between the Federal Cash Transactions and the County's accounting records.</p> <p><i>Recommended Action</i></p> <p>We recommend the Federal Cash Transactions Report be prepared utilizing the County's accounting records.</p>
	<i>Management Response</i>
Response	<p>Per previous discussions with our regional CPD HUD Office, a zero cash balance is required to be reported to HUD on these reports, therefore year end draws are made based on projected expenses to avoid a negative cash balance in the County's accounting system.</p> <p>The Housing & Human Services Department will revisit this subject with the regional CPD HUD Office and make modifications to procedure if requested by HUD.</p>
Time frame	April 15, 2002
Person Responsible	Gay N. Williams, Director