



State of Florida, Tallahassee, FL

Community Development Block Grant Disaster Recovery Program



To: Gary Causey, Director of Community Planning and Development, Jacksonville Field Office, 4HD

From: //signed//
Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

Subject: The State of Florida, Tallahassee, FL, Did Not Properly Support the Eligibility of Some Funds Used for the Community Development Block Grant Disaster Recovery Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the State of Florida's Community Development Block Grant Disaster Recovery program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



Audit Report Number: 2015-AT-1006

Date: July 27, 2015

The State of Florida, Tallahassee, FL, Did Not Support the Eligibility of Some Funds Used for the Community Development Block Grant Disaster Recovery Program

Highlights

What We Audited and Why

We audited the State of Florida's Community Development Block Grant Disaster Recovery (CDBG-DR) program because the State was awarded more than \$107 million to recover from the 2008 natural disasters and to undertake activities and long-term strategies that focus on reducing future natural disasters. Further, the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, had not audited the State since 2006. Our audit objective was to determine whether the State administered its CDBG-DR program in accordance with applicable HUD requirements. Specifically, we wanted to determine whether the State used funds to assist eligible properties and beneficiaries.

What We Found

The State did not adequately administer its CDBG-DR program in accordance with HUD requirements because it did not demonstrate whether (1) 93 assisted units with expenditures of more than \$2 million were impacted by the 2008 declared disasters, (2) a property acquired for \$63,076 was in a high-risk area, (3) a property met the low- and moderate-income housing national objective, and (4) 9 beneficiaries with expenditures of \$220,589 were income eligible to receive assistance.

What We Recommend

We recommend that HUD require the State to provide support regarding the eligibility of funds used or reimburse HUD more than \$2 million from non-Federal funds. The State should also develop policies and procedures to ensure that sufficient eligibility documentation is maintained.

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Background and Objective

From August through September 2008, the State of Florida was impacted by Hurricanes Ike and Gustav and Tropical Storm Fay. In response to these disasters, both the governor of Florida and the President of the United States declared a state of emergency in affected communities. As a result, on September 30, 2008, Congress appropriated \$6.5 billion under the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009.

Under the Act, the U.S. Department of Housing and Urban Development (HUD) provided two allocations of Community Development Block Grant Disaster Recovery (CDBG-DR) funds to the State. The first allocation of more than \$81 million was awarded in December 2009 to recover from the 2008 natural disasters. The second allocation of more than \$26 million was awarded in March 2011 from the CDBG Disaster Recovery Enhancement Fund (DREF) to undertake activities and long-term strategies that focus on reducing damages from future natural disasters. The State and HUD anticipate closing the grant activities by December 2015.

The State's Department of Community Affairs administered the CDBG-DR funds until September 30, 2011, when the Department of Community Affairs was terminated. On October 1, 2011, the responsibility of the CDBG-DR program was transferred to the Department of Economic Opportunity. The Department assists the governor in working with the legislature, State agencies, business leaders, and economic development professionals to formulate and implement policies and strategies that will promote economic opportunities for Floridians. The Department's Division of Community Development maintains responsibility for the CDBG-DR program, along with several other programs, such as CDBG and the Neighborhood Stabilization Program. The Department administers the CDBG-DR program through subrecipients or local governments.

The State reports CDBG-DR activities quarterly through HUD's Disaster Recovery Grant Reporting (DRGR) system. DRGR allows grantees to request their grant funding from HUD and report on what is accomplished with these funds. According to DRGR, as of October 31, 2014, the State disbursed more than \$89 million of the total grant, which included more than \$15.5 million for housing-related activities.

The audit objective was to determine whether the State administered its CDBG-DR program in accordance with applicable HUD requirements. Specifically, we determined whether the State used disaster recovery funds to assist eligible properties and beneficiaries.¹

¹ Our objective did not include the review of duplication of benefits because HUD reviewed this matter in December 2010 with the State (Department of Community Affairs), and elevated in October 2011 as a finding, noting that the State's subrecipients failed to take actions to prevent duplication of benefits. HUD issued a revised corrective action to the State in April 2013, which required sufficient evidence be provided to support duplication of benefits compliance; the State (Department of Economic Opportunity) provided additional supporting analysis to HUD in 2013, 2014, and 2015. The State and HUD are addressing this finding and anticipate closing the subrecipient grant activities by December 2015.

Results of Audit

Finding 1: The State Did Not Have Sufficient Evidence To Show That Some Units Were Eligible To Receive Assistance

The State did not have sufficient evidence to show that units were eligible to receive assistance. Specifically, it did not have sufficient evidence to support that (1) 93 units assisted with the first allocation of CDBG-DR funds were impacted by the applicable 2008 storm, (2) a property purchased with DREF funds was in a high-risk area, and (3) a property purchased met the national objective to provide low- to moderate-income housing. These conditions occurred because (1) the State did not believe it was necessary to show the impact of storm damages when funds were used for mitigation purposes, (2) its subrecipients believed there was sufficient evidence to show that properties were eligible for assistance, and (3) the State relied heavily on subrecipients for activity information. As a result, HUD has no assurance that more than \$2 million in CDBG-DR funds was used to assist eligible properties.

Insufficient Proof of Impact by the Federally Declared Disaster

The State did not have sufficient evidence to support that the assisted units were damaged as a result of the declared storms. Federal Register Notice 74 FR 7244 (February 13, 2009) states that funds must be used for necessary expenses related to disaster relief; long-term recovery; and restoration of infrastructure, housing, and economic revitalization in areas affected by natural disasters that occurred in 2008. We reviewed seven housing-related activities administered by four subrecipients that had total expenditures of more than \$3.2 million. Two of the four subrecipients reviewed did not provide sufficient evidence to support that more than \$2 million in CDBG-DR funds was used for eligible properties (see table 1 and appendix C for detailed review).

Table 1 – Unsupported evidence of storm impact

DRGR activity name	Description of expense	Number of units	Questioned costs
Escambia Co 14B	Rehabilitation and mitigation of an affordable rental housing development that sustained damages from Hurricane Gustav	48	\$1,075,000
St. Lucie Co 14A/ARH*	Rehabilitation or reconstruction and mitigation of residential structures that sustained damages from Tropical Storm Fay	8	\$547,317
	Installation of hurricane-proof doors and windows for affordable rental housing developments to solely mitigate future storm damages	37	\$403,949
	Total	93	\$2,026,266
*This activity has two separate projects.			

In some instances, funds were awarded to rehabilitate and mitigate future storm damages by repairing or reconstructing homes to comply with local and State building code standards. Evidence that the homes had been damaged by the declared 2008 storm was insufficient. To justify the use of funds, in some cases, the subrecipients had photographs and scope of work or home inspection reports to demonstrate the need to repair or reconstruct the residential structure to lessen the risk of future storm damage. Although the files included photographs and inspection reports, they were dated several years after the storm, and the documentation did not indicate that the damages were related to the storms. According to the subrecipient agreements² and HUD's Homeowner's Rehabilitation Program Guidance, the recipient must demonstrate that the damage or destruction to structure was a direct result of the applicable disaster. Therefore, we consider the evidence provided insufficient.

In another instance, funds were used to replace windows and exterior doors that were impact rated and energy efficient. Efforts were exclusively for mitigation or preparedness purposes generally connected to a future disaster, not to the declared storm.

The State indicated that the lack of documentation may have been due to the high staff turnover and loss of information that occurred when the program transitioned from the Department of Community Affairs to the Department of Economic Opportunity. Staff believed that when funds were used for mitigation purposes it did not need to show that the assisted properties were impacted by the declared storms. In addition, the State explained that in its application, the subrecipients stated and provided documentation on how activities were related to the storms. In most cases, the subrecipients provided newspaper articles and pictures of the area wide devastation in the aftermath of the storm. Therefore, the State believed that the application was sufficient to connect the activity to the storm. The State also thought it did not need to demonstrate that the property assisted suffered actual damages or was affected by the declared storm since the HUD-approved action plan indicated that disaster recovery funds would be used for mitigation and preparedness purposes.

Activities funded with 2009 appropriations must clearly demonstrate that funds address a direct or indirect impact of the declared disaster. However, when disaster funds are used for individual homeowner rehabilitation activities, the State must demonstrate that the damage or destruction was a direct result of the disaster³. In addition, as part of the recovery effort, HUD encourages the incorporation of preparedness and mitigation measures into eligible rebuilding activities that address the impacts of the previously covered disaster⁴. However, mitigation activities that are not part of the recovery or rebuilding activity and are generally connected only to a future disaster are ineligible. Therefore, more than \$2 million in CDBG-DR funds will be unsupported

²According to the CDBG-DR agreement between the State and the subrecipient, Attachment J: Program and Special Condition Section, "before expending disaster recovery funds for housing rehabilitation projects, the recipient must receive prior written approval of release of funds and the file shall document damage by the applicable 2008 storm."

³ See: hudexchange.info/cdbg-dr/toolkits "HUD's Homeowner Rehabilitation Program Guidance"

⁴ Federal Register Notice 74 FR 7250 (February 13, 2009) encourages construction methods that emphasize high quality, durability, energy efficiency, sustainability, and mold resistance, including how the State will promote enactment and enforcement of modern building codes and mitigation of flood risk, where appropriate.

until the State provides sufficient evidence to HUD to show that the assisted units were impacted by the 2008 declared natural disasters.

Insufficient Proof That Property Was in a High-Risk Area

The State did not have sufficient evidence to support that a property acquired under activity Leon Co DREF 01 with \$63,076 in CDBG DREF funds was located in a high-risk area. The subrecipient used DREF funds to acquire four scattered owner-occupied single-family residential units located in the designated 100-year flood plain. According to Federal Register Notice 74 FR 41148 (August 14, 2009), DREF funds were awarded to invest in efforts that focus on reducing damages from future natural disasters, such as providing buyout payments to homeowners in a severe risk for a future disaster. One of the four properties acquired was not located in a 100-year flood plain or high-flood-risk area; instead, it was located in an area of minimal flood hazard. The subrecipient's storm water management coordinator indicated that flood zone designation did not accurately reflect the flooding experienced by residents but did not provide a flood hazard analysis to support this claim. Therefore, \$63,076 will be unsupported until the State provides documentation to show that the property was located in a high-risk area.

No Evidence To Show That a Property Met the National Objective

The State did not have evidence to show that a property under activity Monroe Co 01/ARH met the low- to moderate-income housing objective. In 2011, \$261,470 in CDBG-DR funds was used to acquire five properties with the goal of rehabilitating and providing affordable rental housing. These properties sustained damages in 2008 from Tropical Storm Fay. Although HUD's DRGR system shows that the activity had been completed, one of the five properties was pending rehabilitation and was unoccupied. This vacant property is blighted and deteriorated, and plans for the property to be discussed with the City's Historical Architectural Review Commission were pending. According to 24 CFR (Code of Federal Regulations) 570.483(b)(3), housing activities are carried out for the purpose of providing or improving permanent residential structures that, upon completion, will be occupied by low- and moderate- income households. The activity should not have been closed until the property was rehabilitated and occupied by a low-to moderate- income household. This condition occurred because the State heavily relied on the subrecipient to provide information about the activity and closed it once all funds were drawn for the activity. Due to the State's limited resources and large workload, it does not confirm the information until all activities administered by the subrecipients are complete or subrecipient agreement is expired. Therefore, \$14,127 in CDBG-DR funds will be unsupported until the State provides documents supporting the plans for the vacant unit. If the plans require a change of national objective, the State must provide supporting documentation to demonstrate compliance with the new national objective.

Conclusion

The State did not have sufficient evidence to show that some units were eligible to receive assistance. This condition occurred because (1) the State did not believe it was necessary to show the impact of storm damages when funds were used for mitigation purposes, (2) the subrecipients believed there was sufficient evidence to show that properties were eligible for assistance, and (3) the State relied heavily on subrecipients for activity information. As a result, HUD has no assurance that more than \$2 million in CDBG-DR funds was used to assist eligible properties.

Recommendations

We recommend that the Director of the HUD Jacksonville Office of Community Planning and Development require the State to

- 1A. Provide documents supporting that the 93 units assisted under activities Escambia Co 14B and St. Lucie Co 14A/ARH were impacted by the declared storm or reimburse HUD \$2,026,266 from non-Federal funds.
- 1B. Provide documentation supporting that acquisition under activity Leon Co DREF 01 was in a high-risk area or reimburse HUD \$63,076 from non-Federal funds.
- 1C. Provide documents supporting plans for meeting the low- and moderate-income housing national objective for a vacant unit under activity Monroe Co 01/ARH or reimburse HUD \$14,127 from non-Federal funds. If the plans require a change of national objective, the State should provide supporting documentation to demonstrate compliance with the new national objective.
- 1D. Develop and implement written policies and procedures that identify documents required to support the impact of applicable storms for future grants.
- 1E. Develop and implement written policies and procedures to ensure that the national objective is met before closing an activity in HUD's DRGR system for future grants.

Finding 2: The State Did Not Have Documentation To Show That Some Beneficiaries Were Income Eligible To Receive Assistance

The State did not have sufficient documentation to show that nine tenants for activity Leon Co 14A were income eligible to receive assistance. This condition occurred because the subrecipient misinterpreted the regulation by not assessing the income eligibility of the tenant that resided in the property. As a result, there was no assurance that \$220,589 in CDBG-DR funds was spent for eligible beneficiaries.

Income Eligibility Not Supported for One Activity

The State did not have documentation to support the eligibility of beneficiaries for activity Leon Co 14A. This activity involved the repairing of 13 residential housing units. The subrecipient explained that 9 of the 13 residential units provided affordable rental housing to low- and moderate- income households. The subrecipient provided income documentation for all 13 households. However, it did not have the income documentation for the initial tenants, who resided in nine rental units listed in table 2. According to 24 CFR 570.483(b)(3), an activity is considered meeting the low- and moderate-income housing national objective if it can demonstrate that upon completion of providing or improving permanent residential structures are occupied by low- and moderate-income households, whether owner – or renter –occupied.

Property no.⁵	Amount disbursed
1	\$15,748
2	\$27,940
3	\$24,920
4	\$18,903
5	\$16,930
6	\$70,901
7	\$3,511
8	\$16,690
9	\$25,046
Total	<u>\$220,589</u>

This occurred because the subrecipient misunderstood the regulations by assessing the eligibility of the owners of the properties instead of the tenants that occupied the properties upon completion of rehabilitating the properties. The subrecipient required the owners to provide affordable rental housing to low- and moderate- income household; nonetheless, the subrecipient considered the beneficiary to be the owner not the tenant.

The State monitored this subrecipient and found no issues with eligibility, but these 9 units were not reviewed. The State agreed that the subrecipient should have maintained documents supporting the eligibility of the tenant and not the owner.

⁵ Property addresses were previously provided to the State and HUD.

In an effort to address this finding, the subrecipient attempted to obtain documentation supporting the eligibility of the initial tenants that occupied these units, but was not successful. The subrecipient provided survey forms that did not comply with HUD's State CDBG guide book, Chapter 3 Low-Moderate Income Housing requirements because the forms did not include the tenants' income, the subrecipient's computation, and supporting documentation. Without proper documentation to confirm the subrecipient's assessment, we could not determine whether the tenants' income qualified for assistance. In addition, the income eligibility information provided for six tenants was based on current income. According to 24 CFR 570.483(b)(3), a housing activity is an eligible activity for the purpose of providing or improving permanent residential structures that, upon completion, will be occupied by low and moderate income households. Therefore, it is necessary for the subrecipient to obtain and document the tenants' income eligibility at the time the assistance was initially awarded. Hence, current income information does not provide support of income eligibility at the time the assistance was awarded.

Conclusion

The State did not always comply with CDBG-DR requirements because it did not have documentation supporting that nine tenants were income eligible for activity Leon Co 14A. This condition occurred because the subrecipient misinterpreted the regulation by not assessing the income eligibility of the tenant that resided in the property. As a result, \$220,589 in CDBG-DR funds was unsupported for nine housing units, and HUD has no assurance that the tenants were eligible to receive assistance.

Recommendations

We recommend that the Director of the HUD Jacksonville Office of Community Planning and Development require the State to

- 2A. Provide supporting documentation to show that nine tenants were income eligible for assistance under activity Leon Co 14A or reimburse its program \$220,589 from non-Federal funds.

Scope and Methodology

We performed our review from November 2014 through April 2015 at the State's Department of Economic Opportunity located at 107 East Madison Street, Caldwell Building, Tallahassee, FL, and other sites as necessary. Our review covered the period December 21, 2009, through October 31, 2014, and was expanded as needed to achieve our objective.

To accomplish our objective, we

- Reviewed applicable laws and regulations;
- Reviewed applicable State policies and procedures;
- Reviewed HUD's monitoring, independent public accountant, and DRGR reports;
- Reviewed the subrecipient's financial records, program activity files, and other supporting documentation;
- Interviewed HUD, State, and subrecipient staff; and
- Performed site visits to ensure the existence of activities.

During the period December 21, 2009, through October 31, 2014, the State disbursed more than \$15.8 million in CDBG-DR funds for housing-related activities. Based on high dollar disbursement amounts, three subrecipients were selected, and six housing-related activities were chosen. From these six activities, we reviewed the income eligibility of 42 beneficiaries and property eligibility of 43 units with a total disbursement of more than \$1.4 million, or 8.9 percent of total housing-related disbursements.

Twelve of the forty-three units reviewed were from activity Escambia Co 14B, which used CDBG-DR funds to rehabilitate and mitigate a 48-unit rental complex. According to the subrecipient and review, there was insufficient evidence to show that the rental complex as a whole was impacted by the declared natural disaster. Therefore, we expanded our questioned cost from the 12 units reviewed to all 48 units funded with CDBG-DR funds totaling to more than \$1 million.

We selected an additional housing-related activity based on high dollar disbursement from another subrecipient with 46 assisted units and disbursements of more than \$1 million to determine whether the units were eligible for assistance.⁶

We did not perform a 100 percent selection. The results of this audit apply only to the items reviewed and cannot be projected to the universe of activities.

⁶ In total, we reviewed seven housing-related activities from four subrecipients that had total disbursements of more than \$3.2 million, or 20.6 percent of the total housing-related disbursements.

We determined that the computer-processed data generated by the Department of Economic Opportunity and its subrecipients were not used to materially support our audit findings, conclusions, and recommendations. Therefore, we did not assess the reliability of these computer-processed data.

We conducted the audit 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 findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Controls over program operations.
- Controls over relevance and reliable information.
- Controls over compliance with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The State did not have sufficient evidence to show that some units were eligible to receive assistance (see finding 1).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported
1A	\$2,026,266
1B	63,076
1C	14,127
2A	220,589
Totals	<u>\$2,324,058</u>



Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Rick Scott GOVERNOR	 FLORIDA DEPARTMENT OF ECONOMIC OPPORTUNITY	Jesse Panuccio EXECUTIVE DIRECTOR
June 29, 2015		
<p>Nikita N. Irons Regional Inspector General for Audit Office of Audit (Region IV) U.S. Department of Housing and Urban Development 75 Spring Street SW, Room 330 Atlanta, GA 30303</p>		
<p>Dear Ms. Irons:</p>		
<p>Enclosed is the Florida Department of Economic Opportunity's response to your correspondence dated June 9, 2015, which requested a written statement of explanation concerning findings contained in the draft audit report resulting from the U.S. Department of Housing and Urban Development's Office of Inspector General review of the State of Florida's CDBG Disaster Recovery Program.</p>		
<p>We thank you and your staff for the recommendations designed to enhance our ongoing efforts to efficiently and effectively serve the citizens of our state.</p>		
<p>If you have questions or need additional information regarding the enclosed documents, please contact Ryan Butler at Ryan.Butler@deo.myflorida.com or (850) 717-8518.</p>		
<p>Sincerely,  William B. Killingsworth, Director Division of Community Development</p>		
<p>Enclosure</p>		
<p>cc: Gary Causey, HUD, Director, Community Planning and Development Mark Horwath, HUD, Specialist, Community Planning and Development</p>		
<p><small>Florida Department of Economic Opportunity Caldwell Building 107 E. Madison Street Tallahassee, FL 32399 866.FIA.2345 850.245.7105 850.971.3225 Fax www.floridadeo.com www.twitter.com/FLDEO www.facebook.com/FLDEO</small></p>		
<p><small>An equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. All voice telephone numbers on this document may be reached by persons using TTY/TDD equipment via the Florida Relay Service at 711.</small></p>		

Florida Department of Economic Opportunity
Response to Draft Report Findings
State of Florida's CDBG Disaster Recovery Program Audit

Finding No. 1: The State Did Not Have Sufficient Evidence To Show That Some Units Were Eligible To Receive Assistance

Auditor Comments 1A: Provide documents supporting that the 93 units assisted under activities Escambia Co 14B and St. Lucie Co 14A/ARH were impacted by the declared storm or reimburse HUD \$2,026,266 from non-Federal funds.

Department of Economic Opportunity (DEO) Response: DEO will continue to coordinate with the two specified subrecipients over the coming weeks to identify additional supporting documents that may be applicable to the damages sustained from the declared storm. Any supporting documents that are obtained will be provided to the HUD Jacksonville Field Office.

Auditor Comments 1B: Provide documentation supporting that acquisition under activity Leon Co DREF 01 was in a high-risk area or reimburse HUD \$63,076 from non-Federal funds.

DEO Response: DEO has reviewed the auditor comments with the subrecipient, and additional supporting documentation has been requested. DEO will also review the specific circumstances regarding the acquired property's flood prone designation with the HUD Jacksonville Field Office in an effort to provide a better understanding of the historical flooding trends associated with the specified property. Any supporting documents that are obtained will be provided to the HUD Jacksonville Field Office.

Auditor Comments 1C: Provide documents supporting plans for meeting the low- and moderate-income housing national objective for a vacant unit [REDACTED] under activity Monroe Co 01/ARH or reimburse HUD \$14,127 from non-Federal funds. If the plans require a change of national objective, the State should provide supporting documentation to demonstrate compliance with the new national objective.

DEO Response: DEO is working with the subrecipient to determine the proposed final outcome of the acquired property. While the status for activity Monroe Co 01/ARH, in HUD's DRGR system, reflects "completed," this only represents the status for activity funds drawdown. The referenced subrecipient agreement is still open and activities are still underway; DEO will continue to monitor the subrecipient's progress in completing the proposed accomplishments and ensure compliance with the required national objective is achieved.

Auditor Comments 1D: Develop and implement written policies and procedures that identify documents required to support the impact of applicable storms for future grants.

Comment 1

Comment 2

Comment 3

**Florida Department of Economic Opportunity
Response to Draft Report Findings
State of Florida's CDBG Disaster Recovery Program Audit**

Comment 4

DEO Response: DEO is working with HUD, and HUD's technical assistance provider (TDA), to finalize an update to the State of Florida's CDBG Disaster Recovery Program Policies and Procedures Manual. The policies and procedures manual will be further reviewed in consideration of the auditor comments, and the manual will be revised, as necessary, to incorporate additional language and processes. DEO anticipates that a revised version of the manual will be completed by August 31, 2015.

Auditor Comments 1E: Develop and implement written policies and procedures to ensure that the national objective is met before closing an activity in HUD's DRGR system for future grants.

Comment 3

DEO Response: DEO welcomes comments and suggestions on CDBG Disaster Recovery Program processes and practices. However, as mentioned in the audit exit conference, the specified subrecipient agreement (referenced in Auditor Comments 1C) has not been closed yet. DEO has reflected a "completed" status in HUD's DRGR system for the activity funds drawdown, but the activity will not be reviewed for close-out status until after the subrecipient agreement expiration or after the cumulative subrecipient agreement activities have been accomplished. In this case, the subrecipient agreement does not expire until June 30, 2015 and the subrecipient close-out package is anticipated to be submitted to DEO within 45 days after agreement expiration.

Finding No. 2: The State Did Not Have Documentation To Show That Some Beneficiaries Were Income Eligible To Receive Assistance

Comment 5

Auditor Comments 2A: Provide supporting documentation to show that nine tenants were eligible for activity Leon Co 14A or reimburse its program \$220,589 from non-Federal funds.

DEO Response: DEO has reviewed the auditor comments with the subrecipient, and the subrecipient has committed to expedite additional eligibility income verification reviews for the nine identified tenants that occupied affordable rental housing program projects immediately after housing rehabilitation was performed. DEO anticipates that the subrecipient's data collection activities and DEO's review of the subrecipient's submitted data will be completed by July 31, 2015, and the supporting documents will be provided to the HUD Jacksonville Field Office.

OIG Evaluation of Auditee Comments

Comment 1 The State indicated that it was working with Escambia and St. Lucie Counties to identify additional supporting documents applicable to the damages sustained from the declared storms.

We acknowledge the State's effort to obtain documents that support the damages from the declared storms for activities Escambia Co 14B and St. Lucie Co 14A/ARH. The Office of Community Planning and Development is responsible for verifying whether the actions for recommendation 1A are addressed sufficiently.

Comment 2 The State requested additional information from the subrecipient and will work with the HUD Jacksonville Field Office to determine why the property they acquired was in a high-risk flood area.

We acknowledge the State's effort in working with HUD to understand flood designations, and obtaining the documents to support that the property acquired from its subrecipient was in a high-risk flood area. The Office of Community Planning and Development is responsible for verifying whether the actions for recommendation 1B are addressed sufficiently.

Comment 3 The State is working with the subrecipient to determine whether the acquired property will meet the national objective and, if not, the funds must be returned. While the State agreed that HUD's Disaster Recovery Grant Reporting (DRGR) system shows the activity was completed, this only represents the status for activity funds drawdown. The State clarified that the activity is still underway and the State will continue to monitor the activity's progress to ensure that the required national objective is achieved.

According to the DRGR Quarterly Performance Report Module –Draft User Guide, May 9, 2011, version, section 6.4, an activity is considered complete once all required beneficiary, performance, and financial information has been entered on the activity. If the subrecipient agreement is still open and activities are still underway, the "Completed" activity status currently shown in DRGR is incorrect. The activity status in DRGR should be changed to "Underway" and the activity progress narrative section should be updated to show accurate activity information. We encourage the State to implement recommendation 1E and continue monitoring the subrecipient's progress in completing the proposed accomplishments to ensure compliance with the national objective.

Comment 4 Currently, the State is working with HUD to finalize an updated policies and procedures manual for the CDBG-Disaster Recovery program. The State will incorporate additional language and processes in the manual to address the OIG's

recommendations. The State anticipates a revised version of the manual to be completed by August 31, 2015.

We acknowledge the State's efforts in working with HUD's technical assistance provider to update and revise its policies and procedures for its CDBD-Disaster Recovery program. The Office of Community Planning and Development is responsible for reviewing and verifying whether the actions for recommendation 1D are addressed sufficiently.

Comment 5 The State explained that the subrecipient has committed to expedite additional eligibility income verification reviews for the nine tenants that occupied affordable rental housing program projects after the rehabilitation was performed. The State anticipates submitting supporting documents to HUD by July 31, 2015.

We appreciate the State's effort to obtain the information to support the income eligibility for activity Leon Co 14A. The Office of Community Planning and Development is responsible for reviewing and verifying whether the actions for recommendation 2A are addressed sufficiently.

Appendix C

Files Questioned for Insufficient Evidence of Impact of Storm

Escambia Co 14B – Sanchez Court Apartments	
Activity description:	Rehabilitation and mitigation of the Sanchez Courts complex. This rental housing development was damaged originally in 2004 by Hurricane Ivan and further impacted in 2008 by Hurricane Gustav.
Questioned costs:	\$1,075,000
Number of units:	48
Review assessment:	<p>The State did not have sufficient evidence to show that the rental complex was directly impacted by Hurricane Gustav as required by the subrecipient agreement.</p> <ul style="list-style-type: none"> • There was no home inspection or damage assessment report indicating that the housing development was impacted by the storm. • No Federal Emergency Management Agency (FEMA) assistance or insurance claim was filed. • The subrecipient provided four photographs of the rental complex taken in the year that the storm occurred. However, pictures did not determine whether damages were a result of the storm. • The subrecipient had other photographs dated several years after the storm. • The subrecipient provided invoices, specifications, drawings, and pictures of the housing development, but this documentation did not support that damages were a result of the storm.

St. Lucie Co 14A/ARH – Rehabilitation or Reconstruction of Residential Structures																					
Project description:	Rehabilitation or reconstruction and mitigation of residential structures that sustained damages from Tropical Storm Fay																				
Questioned costs:	\$547,317																				
Number of units:	8																				
Review assessment:	<p>The State did not have sufficient evidence to show that properties were directly impacted by Tropical Storm Fay as required by the subrecipient agreement. The following properties did not receive or have evidence to show that owner filed a claim with FEMA, the Small Business Administration, or an insurance company. In addition, the home inspection report did not certify that damages to the residential structures occurred as a result of the disaster.</p> <table border="1" data-bbox="761 1419 1127 1782"> <thead> <tr> <th>Property no.</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>\$88,015</td> </tr> <tr> <td>2</td> <td>\$46,684</td> </tr> <tr> <td>3</td> <td>\$77,350</td> </tr> <tr> <td>4</td> <td>\$75,184</td> </tr> <tr> <td>5</td> <td>\$70,791</td> </tr> <tr> <td>6</td> <td>\$74,792</td> </tr> <tr> <td>7</td> <td>\$38,262</td> </tr> <tr> <td>8</td> <td>\$76,239</td> </tr> <tr> <td>Total</td> <td>\$547,317</td> </tr> </tbody> </table>	Property no.	Amount	1	\$88,015	2	\$46,684	3	\$77,350	4	\$75,184	5	\$70,791	6	\$74,792	7	\$38,262	8	\$76,239	Total	\$547,317
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St. Lucie Co 14A/ARH – Garden Terrace and Garden Terrace Annex Communities	
Project description:	Installation of hurricane-proof doors and windows at Garden Terrace and Garden Terrace Annex Communities to mitigate future storm damages
Questioned costs:	\$403,949
Number of units:	37
Review assessment:	The State did not have evidence to show that these rental housing developments were damaged or affected by Tropical Storm Fay because funds were used solely for mitigation purposes. The first allocation of CDBG-DR funds was used for this project. According to Federal Register Notice 74 FR 7244, funds must be used for necessary expenses related to disaster relief; long-term recovery; and restoration of infrastructure, housing, and economic revitalization in areas affected by natural disasters that occurred in 2008. Therefore, mitigation or preparedness activities that are not part of the recovery or rebuilding activity and are generally connected only to a future disaster are ineligible.