



# The Alabama Department of Economic and Community Affairs, Montgomery, AL

Community Development Block Grant Disaster  
Recovery Funds



**To:** Charles Franklin, Director, Community Planning and Development Division

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

**Subject:** The Alabama Department of Economic and Community Affairs Administered Its Community Development Block Grant Disaster Recovery Funds for Infrastructure in Accordance With HUD Requirements

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 Alabama's Department of Economic and Community Affairs' Community Development Block Grant Disaster Recovery funds.

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-1010**

**Date: September 28, 2015**

**The Alabama Department of Economic and Community Affairs  
Administered Its Community Development Block Grant Disaster Recovery  
Funds for Infrastructure in Accordance With HUD Requirements**

# Highlights

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## What We Audited and Why

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We audited the State of Alabama's Department of Economic and Community Affairs' Community Development Block Grant Disaster Recovery (CDBG-DR) grant. We selected the State for review because it was awarded more than \$49 million in funding to recover from the tornadoes of April 2011. Our audit objective was to determine whether the State administered its CDBG-DR funds used for infrastructure to ensure that only eligible applicants participated in the program, funds were spent only for eligible activities, and participants did not receive a duplication of benefits and whether it adequately monitored applicant activity and performance.

## What We Found

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The State administered its CDBG-DR funds for infrastructure in accordance with HUD requirements. It ensured that eligible applicants participated, funds were spent for eligible activities, activities and performance were adequately monitored, and participants did not receive a duplication of benefits.

## What We Recommend

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This report contains no recommendations.

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# Background and Objective

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The Alabama Department of Economic and Community Affairs, located in Montgomery, AL, is responsible for administering the State's Community Development Block Grant Disaster Recovery (CDBG-DR) program which is funded by the U.S. Department of Housing and Urban Development (HUD). The Department was created by the Alabama Legislature as an arm of the Governor's Office in 1983. Its director and assistant director are appointed by the governor. A 10-member Legislative Oversight Commission monitors and evaluates its operations. The Department is composed of seven divisions and various support sections. Each division is responsible for administering different programs and grants and other duties.

On May 29, 2013, HUD issued a Federal Register notice,<sup>1</sup> which advised the public of a second allocation of \$514 million in CDBG-DR funds appropriated by the Disaster Relief Appropriations Act of 2013.<sup>2</sup> The purpose of the allocation was to assist in the recovery of the most impacted and distressed areas which were declared a major disaster in 2011 or 2012. HUD awarded the State of Alabama more than \$49 million from this second allocation. On November 5, 2013, HUD approved the State's action plan. The action plan identified the purpose of the State's allocation, including criteria for eligibility, and how its uses addressed long-term recovery needs. On December 16, 2013, HUD approved a grant agreement, which obligated more than \$32 million in funding from the \$49 million allocation. The Disaster Relief Act required the State to spend obligated funds within 2 years of the date of obligation.

Twenty-one recipients received funding for infrastructure. As of March 31, 2015, more than \$22 million had been awarded to the recipients for infrastructure work, and more than \$15 million had been spent.

Our audit objective was to determine whether the State administered its CDBG-DR funds used for infrastructure to ensure that only eligible applicants participated in the program, funds were spent only for eligible activities, and participants did not receive a duplication of benefits and whether it adequately monitored applicant activity and performance.

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<sup>1</sup> 78 Federal Register 32263, dated May 29, 2013

<sup>2</sup> Public Law 113-2, dated January 29, 2013

# Results of Audit

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## **Finding: The State Administered Its CDBG-DR Funds for Infrastructure in Accordance With HUD Requirements**

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The State ensured that its CDBG-DR funding for infrastructure was administered in accordance with HUD requirements. Specifically, it ensured that (1) only eligible applicants participated in the program, (2) funds were spent only for eligible activities, (3) it adequately monitored applicant activity and performance, and (4) participants did not receive a duplication of benefits.

### **Activities and Applicants Were Eligible**

We reviewed seven recipients that were awarded more than \$4 million in CDBG-DR funds and had spent more than \$3 million. We reviewed each recipient's file to determine whether the CDBG-DR funds were used for eligible applicants and activities. All seven recipients were eligible to receive CDBG-DR funds because they were located in a presidentially declared disaster area. We reviewed each recipient's general ledger, invoices, and canceled checks to verify that all expenses were paid for eligible activities. The State's written policies and procedures ensured that only eligible applicants and activities were approved for assistance in accordance with all applicable State and Federal laws, regulations, and policies. For example, each recipient was required to (1) meet a national objective, such as benefiting low- and moderate-income families, (2) have a citizen participation plan, (3) provide equal opportunity employment, (3) ensure that no activities were located in a flood hazard area, (4) and ensure that activities were located in Alabama counties that were presidentially declared disaster areas.

### **Monitoring and Performance Was Adequate**

The State's policies and procedures for its CDBG-DR programs included procedures for scheduling, conducting, and closing out a monitoring review. The policy stated that monitoring involved the use of checklists to ensure financial and program compliance and a visit to the project site to ensure that the activities were carried out in accordance with the approved application. The checklists allowed the State to determine the recipient's compliance in areas such as citizen participation, meeting a national objective, eligibility, progress, disclosure, professional services, environmental reviews, fair housing and equal opportunity, bidding and contracting, labor, financial management, and record keeping. Upon completion of the monitoring visit, the State provided a letter to the recipient outlining the results of the monitoring review.

The State performed a monitoring review of four of the seven recipients (Blount County, Cullman County, Hanceville, and Marion County). The Phil Campbell and two Hackleburg grants had not been monitored because the State grantee monitoring plan stated that recipients would be monitored when 30 percent of grant funds had been drawn or once in the life of the

grant. For each recipient that was monitored, the monitoring reviews were supported by the monitoring checklist, and the monitoring review letter was issued to the recipient. The State followed its policies and procedures by documenting each file with the monitoring review checklist and monitoring review letter.

For the seven recipients reviewed, two had completed their projects (Blount County and Hanceville) and the State had closed out the projects. The remaining five projects are on schedule to expend funds by the deadline date of December 15, 2015.

### **Duplication of Benefits Did Not Exist for the Seven Files Reviewed**

The State's policies and procedures for duplication of benefits stated all duplicated funds were required to be returned to the State from non-Federal local funds. The State checked for duplication of benefits during the monitoring process. It completed a duplication of benefits checklist to ensure that there was no duplication of benefits. A duplication of benefits checklist was included in the file for each of the four recipients that had a monitoring review. The State also had each recipient sign an affidavit stating there was no duplication of benefits as a result of the CDBG-DR project.

### **Conclusion**

The State had developed policies and procedures for its CDBG-DR program that complied with applicable HUD and Federal requirements. For the seven recipient files reviewed, the State followed its policies and procedures and maintained documentation to ensure that eligible applicants participated, funds were spent for eligible activities, activities and performance were adequately monitored, and participants did not receive a duplication of benefits.

# Scope and Methodology

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We performed our audit from April through June 2015 at the Alabama Department of Economic of Community Affairs, Montgomery, AL, and the seven CDBG-DR recipients' offices in Alabama. Our review generally covered the period April 1, 2011, through March 31, 2015, and was adjusted as necessary.

To accomplish our objective, we

- Interviewed Alabama Department of Economic of Community Affairs staff to obtain an understanding of the controls significant to the audit objective and assist in our review of its files;
- Reviewed relevant background information;
- Reviewed the Disaster Relief Appropriations Act, Public Law 113-2;
- Reviewed 78 Federal Register 32262, dated May 29, 2013;
- Reviewed applicable laws, regulations, and relevant HUD program requirements to ensure the eligibility of applicants;
- Reviewed organizational charts for Alabama's Department of Economic and Community Affairs; its monitoring report, issued July 2, 2014; and its action plan, policies, and procedures for CDBG-DR funds;
- Completed site visits and reviewed the infrastructure work that was completed for the seven CDBG-DR recipients.
- Reviewed each recipient's general ledger, invoices and canceled checks to verify that all expenses were paid for eligible activities; and
- Reviewed files to ensure that adequate monitoring was completed and participants did not receive a duplication of benefits.

We used a random number generator that assigned a random number to each record, and then a random number was assigned to records 1 to 21. The random number generator was used because our universe of 21 was too small to project.

We selected the first seven recipients to review (see Appendix A). The total amount of CDBG-DR funding awarded to the seven recipients was more than \$4 million, and more than \$3 million was spent. We reviewed more than \$3 million, or 23 percent of the total CDBG-DR funding, spent for infrastructure.

We reviewed each recipient file to determine whether the CDBG-DR funds were used for eligible applicants and activities. We also reviewed the files to ensure that adequate monitoring was completed and participants did not receive a duplication of benefits. We reviewed each recipient's general ledger, invoices, and canceled checks to verify that all expenses were paid for eligible activities. All recipients were eligible to receive CDBG-DR funds because they were located in a presidentially declared disaster area. We reviewed each recipient and determined that there was no duplication of benefits.

To achieve our audit objective, we relied in part on computer-processed data. We used the data to select a sample of recipients that were awarded grants for infrastructure for review. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

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 objectives.

# Internal Controls

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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 objectives:

- Program operations – Policies and procedures that management had implemented to reasonably ensure that a program meets its objectives, while considering cost effectiveness and efficiency.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent 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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standard. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

# Appendixes

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## Appendix A

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### State of Alabama recipients reviewed

Locality	Project no	County	Activity	Amount awarded	Amount expended
Phil Campbell	DTR-13-09	Franklin	Sewer	\$232,617	\$16,769
Blount County	DTR-13-16	Blount	Roads	\$758,572	\$758,572
Hackleburg	DTR-13-08	Marion	Farmer's Market	\$204,178	\$10,500
Cullman County	DTR-13-17	Cullman	Roads	\$1,294,892	\$982,582
Hackleburg	DTR-13-08	Marion	Town Hall	\$864,715	\$825,792
Marion County	DTR-13-10	Marion	Roads	\$939,166	\$890,527
Hanceville	DTR-13-15	Cullman	Sewer	\$80,000	\$80,000
<b>Totals</b>				<b><u>\$4,374,140</u></b>	<b><u>\$3,564,742</u></b>

## Appendix B

### Auditee Comments

OFFICE OF THE GOVERNOR		ALABAMA DEPARTMENT OF ECONOMIC AND COMMUNITY AFFAIRS
<b>ROBERT BENTLEY</b> GOVERNOR	STATE OF ALABAMA	<b>JIM BYARD, JR.</b> DIRECTOR

September 24, 2015

Ms. Nikita N. Irons  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
75 Spring Street SW, Room 330  
Atlanta, Georgia 30303

Dear Ms. Irons:

RE: State of Alabama – CDBG Disaster Recovery Funds

We have received a draft audit report of the OIG's review of the State of Alabama's Department of Economic and Community Affairs (ADECA) Community Development Block Grant Disaster Recovery Grant Program. The draft audit report confirms that the State administered its CDBG-DR funds for infrastructure in accordance with HUD requirements, and that the State ensured the eligible applicants participated, funds were expended for eligible activities, activities and performance were adequately monitored, and participants did not receive a duplication of benefits.

The State of Alabama and the Alabama Department of Economic and Community Affairs is deeply thankful and appreciative of the OIG's hard, and I must say tenacious, work to review Alabama's administration of the CDBG Disaster Recovery Funds for infrastructure. The OIG staff was professional, fair, and most importantly, thorough. While we in the State and this Agency strive to do as good a job as we can to ensure full compliance and accountability, an OIG audit, especially the one without a finding, is the validation of hard work our staff performs and gives them reason to be proud of their work.

Again thank you for the positive report. If you have any questions, please call Mr. Shabbir Olia, CED Programs Unit Chief, at (334)242-5468.

Sincerely,

  
Jim Byard, Jr.  
Director

JB:SAO:tmn

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