



The City of Birmingham,  
Department of Community  
Development, Birmingham, AL

Community Development Block Grant Disaster  
Recovery Funds

Office of Audit, Region 4  
Atlanta, GA

Audit Report Number: 2017-AT-1008  
July 21, 2017



**To:** Charles Franklin, Director, Community Planning and Development Division,  
Birmingham, AL, 4CD

**//signed//**

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

**Subject:** The City of Birmingham, AL, Did Not Ensure That Adequate Policies and  
Procedures Were Implemented for Its Internal Audits and Procurement Process

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 City of Birmingham, AL's 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 website. 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: 2017-AT-1008**

**Date: July 21, 2017**

**The City of Birmingham, AL, Did Not Ensure That Adequate Policies and Procedures Were Implemented for Its Internal Audits and Procurement Process**

## Highlights

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### What We Audited and Why

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We audited the City of Birmingham, AL's Community Development Block Grant Disaster Recovery (CDBG-DR) grant. We selected the City for review based on concerns by the U.S. Department of Housing and Urban Development's (HUD) Birmingham Office of Community Planning and Development in regard to the City's administration of its disaster recovery program. Our audit objectives were to determine whether the City ensured that (1) administrative costs were properly allocated, (2) only eligible projects were selected and only eligible applicants participated in the program, (3) adequate policies and procedures were implemented for program management, (4) funds were spent only for activities that were eligible and supported, (5) it adequately monitored activity and performance, (6) there was no duplication of benefits, and (7) procurement of goods or services was conducted according to applicable requirements.

### What We Found

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The City generally administered its CDBG-DR funds in accordance with HUD requirements. It ensured that administrative costs were allocated correctly, only eligible projects and applicants participated in the program, funds were spent only for eligible activities that were adequately monitored, there was no duplication of benefits, procurement of goods and services was conducted according to applicable requirements, and all applicable projects were completed under the national objective of being located in a low- and moderate-income area. However, the City did not conduct internal audits of the CDBG-DR program and did not develop or update, finalize, and implement its policies and procedures for its internal audits and the transition from 24 CFR (Code of Federal Regulation) 85.36 to 2 CFR Part 200 for its procurement contracts. As a result, it could not assure HUD that it provided continual quality assurance of its disaster recovery program and contractors performed in accordance with the terms, conditions, and specifications of its contracts or purchase orders.

### What We Recommend

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We recommend that the Director of the Birmingham Office of Community Planning and Development require the City to (1) develop and implement HUD-approved policies and procedures to ensure that the process for conducting an internal audit complies with HUD regulations; (2) immediately conduct an internal audit; and (3) update, finalize, and implement its procurement policies to comply with 2 CFR Part 200.

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# Background and Objectives

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The City of Birmingham, AL, Department of Community Development is responsible for administering the City'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 of Community Development is under the oversight of the Offices of the Internal Auditor and the Mayor to ensure the proper administration and use of the funds, oversight, and support for the disaster recovery program. Since the April 27, 2011, tornado outbreak, the City has worked diligently with various organizations and residents who were directly and indirectly impacted by the natural disaster. The City has attempted to determine the greatest disaster recovery needs and how to address those needs. Through public comments and interactions with the residents of the affected area, the City has determined the critical need for assistance to repair homes, public facilities, and infrastructure.

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 declared a major disaster in 2011 and 2012. HUD allocated the City more than \$17.4 million from this second allocation. The action plan identified the purpose of the City's allocation, including criteria for eligibility, and how its uses addressed long-term recovery needs. Specifically, funds were to be used for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure, housing, and economic development in the most impacted and distressed areas for which the President declared a major disaster in 2011. In December 2013, HUD approved grant agreements totaling more than \$17.4 million of the allocated funds. As of April 12, 2017, the City had disbursed more than \$5.5 million. The Disaster Relief Appropriations Act of 2013 required the City to spend obligated funds within 2 years of the date of obligation.

Our objectives were to determine whether the City (1) ensured that administrative costs were allocated correctly, (2) ensured that only eligible projects were selected and only eligible applicants participated in the program, (3) ensured that adequate policies and procedures were implemented for program management, (4) ensured that funds were spent only for activities that were eligible and supported, (5) adequately monitored activity and performance, (6) ensured that there was no duplication of benefits, and (7) ensured that procurement of goods or services was conducted according to applicable requirements

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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 City of Birmingham Did Not Ensure That Adequate Policies and Procedures Were Implemented for Its Internal Audits and Procurement Process**

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The City generally administered its CDBG-DR funds in accordance with HUD requirements. It ensured that (1) administrative costs were properly allocated, (2) only eligible projects and applicants participated in the program, (3) funds were spent only for eligible activities and supported, (4) it adequately monitored activity and performance, (5) there was no duplication of benefits, and (6) procurement of goods and services was conducted according to applicable requirements. However, the City did not ensure that it had adequate policies and procedures for its internal audits and procurement process. Specifically, it did not conduct internal audits or develop policies and procedures to perform internal audits of the CDBG-DR program. It also, did not update its procurement policies to document the transition from 24 CFR (Code of Federal Regulation) 85.36 to 2 CFR Part 200 for its procurement contracts. As a result, the City could not assure HUD that it provided continual quality assurance of its disaster recovery program and contractors performed in accordance with the terms, conditions, and specifications of its contracts or purchase orders.

### **Administrative Costs Were Properly Allocated**

The City properly allocated the administrative costs charged to the grant. The City's staff members certified their timesheets biweekly as the policies required. The City's database payroll system identified the grants and programs the staff worked on. We interviewed every employee who worked on the disaster recovery program to determine their job titles and responsibilities for the CDBG-DR grant. We also compared the employees' timesheets to the budgeted time allocation to determine whether the employees charged more time to the CDBG-DR grant than was allocated. Although there were two employees who worked primarily on the grant, who charged more time toward the grant than was allocated for them, the time worked by the two employees was properly charged to the grant. A HUD official explained that the City was allowed to adjust the amount of time allocated to each employee as long as it did not exceed the allocated administrative cost for the entire grant. According to the City's action plan, the City remained within its allocated administrative grant costs.

### **Projects and Activities Were Eligible and Properly Supported**

We reviewed three projects (see appendix A) that received more than \$3.9 million in CDBG-DR funds. We reviewed each project file to determine whether the CDBG-DR funds were used for an eligible project and the activities were supported. All three projects were eligible to receive CDBG-DR funds because they were located in a presidentially declared disaster area. We reviewed each project's general ledger, invoices, and check register to verify that all paid expenses were for eligible activities. All applicable activities were completed under the national objective of being located in a low- and moderate-income area. Based on the City's policies and procedures, applicable project files contained an eligibility determination sheet. The

determination sheets listed general information about the project, as well as the national objective<sup>3</sup> met, the eligible activity met, and the activity's relationship to the disaster.

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

The City's policies and procedures for its CDBG-DR programs included procedures for scheduling, conducting, and closing out a monitoring review. The City's policies state that the monitoring plan will be implemented for the CDBG-DR program with internal monitoring via the Disaster Recovery Grant Reporting (DRGR) system, project reports, and strong internal procedures. The City performed monitoring reviews of the three projects reviewed. For the infrastructure and construction projects, City engineers verified that the work was properly completed. For the administration and planning contract, the City monitored the contract based on items specified in the contract.

### **Duplication of Benefits Did Not Exist for the Three Projects Reviewed**

The City completed a duplication of benefits worksheet to ensure that there was no duplication of benefits, and a duplication of benefits worksheet was included in the three project files reviewed. The City notated on the duplication of benefits worksheet in the file that the project did not assist a business concern or other entity, which may have received financial assistance under any other program or from insurance or any other source.

### **Internal Audit Policies and Procedures Were Not Implemented**

The City did not comply with the internal audit requirement outlined in 78 Federal Register 14329.<sup>4</sup> Specifically, it did not have policies and procedures to perform internal audits of its Department of Community Development. According to 78 Federal Register 14329, an internal auditor is required to conduct a review of the grantee's administration of its program, and the process for performing the internal audits must be described in the grantee's policies and procedures. The City's policies and procedures did not describe the process used to perform internal audits of the CDBG-DR grants. As a result, the City did not perform an internal audit of the CDBG-DR funds.

The HUD Birmingham field office conducted a technical assistance review of the City's CDBG-DR activities in May 2016 and provided the City the results in June 2016. HUD notified the City that it needed to update its policies, to include a summary description of its processes and procedures for performing internal audits of the disaster recovery program. HUD also informed

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<sup>3</sup> Under CDBG program rules, a grantee must meet one of three national objectives for each funded activity. The national objectives are (1) benefiting low- and moderate-income persons, (2) preventing or eliminating slums or blight, or (3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs.

<sup>4</sup> Regulations in 78 Federal Register 14329 require a description of monitoring standards and procedures that are sufficient to ensure that program requirements, including nonduplication of benefits, are met and that provide for continual quality assurance and investigation. Grantees must also describe their required internal audit function with an organizational diagram showing the responsible audit staff report board of the organization designated to administer the CDBG-DR award.

the City that it must conduct an internal audit. HUD notified the City of the same issues via email in October and November 2016.

The deputy director of the Department of Community Development believed the Department had made the revisions that HUD requested and that the City's policies complied with Federal regulations. The director explained that the City was coordinating with its internal auditing division to set up a time to conduct an internal audit of the Department. The director provided a letter, dated December 6, 2016, which showed the Department's efforts to initiate an internal audit. These efforts were placed on hold once the City received notification of our review. The director stated that the Department did not want to impede the progress of our review so it planned to conduct an internal audit once we completed our review. The City's policies and procedures had not been updated, and an internal audit had not been scheduled as of May 2017.

### **Procurement Policies and Procedures Were Not Updated**

The City did not update its policies and procedures to reflect the change from 24 CFR Part 85 to 2 CFR Part 200.<sup>5</sup> During HUD's May 2016 technical assistance review, HUD provided the City's staff guidance on updating its procurement policies and procedures. HUD informed the City of the procurement standards and procurement exception that apply to State and local governments. HUD staff explained the procurement standards in 2 CFR 200.317-326 and advised City staff that it could continue to comply with the procurement standards in 24 CFR Part 85 for 2 additional fiscal years until December 26, 2014, after which 24 CFR Part 200 would go into effect. If a non-Federal entity chooses to use 24 CFR Part 85 standards for an additional 2 fiscal years before implementing the procurement standards in 2 CFR Part 200, the non-Federal entity must document the decision in its internal procurement policies. The City did not document its decision to continue using 24 CFR Part 85 in its policies and procedures, as instructed by HUD, and continued using 24 CFR Part 85 past its fiscal year deadline. The City is on a June 30 fiscal yearend. Since the City did not document its decision to continue using 24 CFR Part 85 for 2 additional years as required,<sup>6</sup> it should have implemented the 2 CFR Part 200 procurement standards beginning July 1, 2015. For the contracts reviewed, two<sup>7</sup> of the three were contracted before July 1, 2015, and were properly procured using 24 CFR Part 85 standards. The third<sup>8</sup> contract was an unsolicited proposal regarding a request for financing and did not require procurement.

The director of the Department of Community Development believed that the staff made the revisions that HUD requested. He thought the revisions made to the policies and procedures addressed all of HUD's concerns.

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<sup>5</sup> 2 CFR 200.317-326 – This section of the CFR replaced 24 CFR 85.36. When procuring property and services under a Federal award, a grantee must follow the same policies and procedures it uses for procurements from its non-Federal funds.

<sup>6</sup> Notice SD-2015-01 and Notice CPD-16-04

<sup>7</sup> Regional Planning Commission of Greater Birmingham procured April 1, 2014, and Southeastern Sealcoating, Inc., procured April 14, 2015

<sup>8</sup> AMT, LLC

## **Conclusion**

For the three projects reviewed, the City had developed policies and procedures for its CDBG-DR program that complied with most applicable HUD and Federal requirements. The City followed its policies and procedures and maintained documentation to ensure that its administrative costs were properly allocated, only eligible projects and applicants participated in the program, funds were spent only for eligible activities and supported, activities and performance were adequately monitored, duplication of benefits was not received, and procurement of goods and services was conducted according to applicable requirements. However, the City did not follow HUD's guidance to perform its internal audits, as well as to develop or update, finalize, and implement its policies and procedures for its internal audits and the transition from 24 CFR 85.36 to 2 CFR 200.317-326 for its procurement contracts. As a result, the City could not assure HUD that it provided continual quality assurance of its disaster recovery program and contractors performed in accordance with the terms, conditions, and specifications of its contracts or purchase orders.

## **Recommendations**

We recommend that the Director of the Birmingham Office of Community Planning and Development require the City of Birmingham to

- 1A. Develop and implement HUD-approved policies and procedures to ensure that the process for conducting an internal audit complies with HUD regulations and the policies and procedures are submitted and certified to HUD.
- 1B. Immediately conduct an internal audit of the CDBG-DR grant funds.
- 1C. Update, finalize, and implement its procurement policies to comply with 2 CFR 200.317-326.

# Scope and Methodology

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During our survey, we reviewed HUD, City, and grantee files, policies, and procedures and interviewed the responsible parties charged with governance of the program.

We performed our onsite audit work between January and March 2017 at the City Hall located at 710 North 20<sup>th</sup> Street, Birmingham, AL, and our office in Atlanta, GA. Our review period covered May 1, 2013, to December 31, 2016.

To accomplish our objectives, we

- Interviewed the City's 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 projects.
- Reviewed organizational charts for the City's Department of Community Development and its monitoring report, action plan, and policies and procedures for CDBG-DR funds.
- Completed site visits to two of the three projects selected that received CDBG-DR funds.
- Reviewed the three projects' general ledgers, invoices, and canceled checks to verify that all paid expenses were for eligible activities.
- Reviewed the three projects' files to ensure that adequate monitoring was completed and participants did not receive a duplication of benefits.
- Reviewed procurement contracts for each project to ensure that procurement requirements were followed in accordance with applicable requirements.

To accomplish our objectives, we focused on projects from the three specific areas (administrative costs, multifamily housing, and infrastructure) addressed in the City's action plan. There were 12 projects that received CDBG-DR funds. As of January 1, 2017, the City obligated more than \$8 million and had drawn more than \$5.5 million in CDBG-DR funds.

Our sample consisted of one project from each specific area in the City's action plan.

The three projects<sup>9</sup> selected for review totaled more than \$3.9 million, or 72 percent, from the 12 projects (totaling more than \$5.5 million) based on DRGR draws as of January 27, 2017. The projects selected were Regional Planning Commission of Greater Birmingham; AMT, LLC; and Southeastern Sealcoating, LLC.

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<sup>9</sup> 1. Regional Planning Commission of Greater Birmingham - Administrative and Planning, 2. AMT, LLC - Multifamily Housing, 3. Southeastern Sealcoating, Inc. - Infrastructure

We reviewed each project file to ensure that administrative costs were allocated correctly. We ensured that only eligible projects were selected, only eligible applicants participated in the program, and adequate policies and procedures were implemented for program management. We reviewed the files to ensure that funds were spent only for activities that were eligible and supported and that the City adequately monitored activity and performance. In addition, we ensured that there was no duplication of benefits and the procurement of goods or services was conducted according to applicable requirements. We reviewed general ledgers, invoices, and canceled checks to verify that all expenses were paid for eligible activities.

We relied in part on computer-processed data contained in the Authority's system to achieve our audit objective. 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 adequately reliable for our purposes. The tests for reliability included but were not limited to comparing computer-processed data to information in the sample contract files and other supporting documentation.

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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that file maintenance, expenditure, and financial reporting activities are conducted in accordance with applicable laws and regulations.
- 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 standards. 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 City's internal controls.

# Appendixes

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## Appendix A

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### City of Birmingham Projects Reviewed

Project number	Project-activities	Contract Amount	Drawn in DRGR
1	Regional Planning Commission of Greater Birmingham	\$582,600	\$187,137
2	AMT, LLC	3,745,831	3,215,111
3	Southeastern Sealcoating, Inc.	1,413,634	558,978
<b>Totals</b>		<b>5,742,065</b>	<b>3,961,226</b>

## Appendix B

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

 WILLIAM A. BELL, SR. MAYOR	<b>CITY OF BIRMINGHAM</b> DEPARTMENT OF COMMUNITY DEVELOPMENT	JOHN G. COLÓN DIRECTOR
June 26, 2017		
Ms. Nikita N. Irons Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of Audit (Region IV) 75 Ted Turner Drive, S.W., Room 330 Atlanta, Georgia 30303		
Dear Ms. Irons:		
Please see below our comments in response to the OIG's HUD CDBG-DR draft audit report and recommendations dated June 14, 2017, and Exit Conference held on June 21, 2017.		
<b>Response to Recommendations:</b>		
<b><u>FINDING - Internal Audit Policies and Procedures Were Not Implemented and response to recommendation 1B:</u></b>		
The City was not in compliance with the internal audit requirement outlined in 78 Federal Register 143292. Specifically, the City did not have policies and procedures to perform internal audits of its Community Development Department. Per 78 Federal Register 14329 an internal auditor is required to conduct a review of the grantees' administration of its program, and the process for performing the internal audits must be described in the grantees' policies and procedures. The City's policies and procedures did not describe the process that they used to perform internal audits of the CDBG-DR grants. As a result, the City did not perform an internal audit of the CDBG-DR funds.		
<b><u>RESPONSE:</u></b> The Mayor's Office has been communicated with regarding the Findings. The City's Internal Audit Department is scheduled to conduct an internal audit of the CDBG-DR Program on August 1, 2017.		
710 NORTH 20 <sup>TH</sup> STREET • ROOM 1000 • BIRMINGHAM, ALABAMA 35203 • (205) 254-2475 • FAX (205) 254-2282		

Comment 1

## Comment 2

### **FINDING: Procurement Policies and Procedures Were Not Updated and response to recommendation 1A and 1C.**

The City did not update its policies and procedures to reflect the change from 2 CFR 85 to 2 CFR 200. During HUD's May 2016 Technical Assistance review, HUD provided the City's staff guidance on updating their procurement policies and procedures. HUD informed the City of the procurement standards and procurement exception that apply to state and local governments. The HUD staff explained the procurement standards in 2 CFR 200.317-326, and advised the City staff that they may continue to comply with the procurement standards in 24 CFR 85, for two additional fiscal years beginning after December 26, 2014, after this time, 24 CFR 200 goes into effect. If a non-Federal entity chooses to use 24 CFR 85 standards for an additional two fiscal years before implementing the procurement standards in 2 CFR 200, the non-Federal entity must document the decision in its internal procurement policies. The City did not document its decision to continue using 24 CFR 85 in its policies and procedures, as instructed by HUD, and continued using 24 CFR 85 past its fiscal year deadline. The City is on a June 30 fiscal year end. Since the City did not document its decision to continue using 24 CFR 85 for two additional years, as required. It should have implemented the 2 CFR 200 procurement standards beginning July 1, 2015. For the contracts we reviewed, two of the three were contracted prior to July 1, 2015, and were properly procured using 24 CFR 85 standards. The third contract was an unsolicited proposal regarding request for financing and did not require procurement.

**RESPONSE:** The City has revised its CDBG-DR policies and procedures manual to comply with 2 CFR 85 to 2 CFR 200 updates. Following is the language added to the City of Birmingham's CDBG Policies and Procedures Manual now on file. A consultant has been hired to assist the department with final updating and packaging of its HUD-approved policies and procedures. We anticipate having a completed manual no later than July 31, 2017.

### **SECTION: AUDITS**

#### **Audit Requirements**

Program regulations require all that Subrecipients of Federal funds expending more than \$750,000 within a twelve month period follow the audit requirements pursuant to Office of Management and Budget (OMB) Uniform Administrative Requirements, referenced at 2 CFR Part 200, Subpart F: Audit Requirements. While, according to program regulations, Subrecipients having expended less than the threshold of \$750,000 are exempt, the City requires that all Subrecipients have an audit conducted upon completion and/or termination of its Agreement. Said Audit shall be performed in accordance with 2 CFR Part 200, Subpart F and shall follow generally accepted auditing standards established by the American Institute of Certified Public Accountants (AICPA) and generally accepted governmental standards established by the U.S. General Accounting Office (GAO). Certified Public Accountants shall meet established independence criteria established for Audits of Governmental Organizations, Program, Activities and Functions.

#### Uniform Administrative Requirements

- 1) The Subrecipient shall comply with the requirements of 24 CFR 570.502 and the following OMB Circulars, as applicable:
  - A) Subrecipients which are governmental entities (including public agencies) shall comply with the requirements and standards of OMB Omni Circular 2 CFR Part 225, "Principles for Determining Costs Applicable to Grants and Contracts with State, Local and Federally recognized Indian Tribal Governments," and OMB Omni Circular 2 CFR Part 200, "Audits of States, Local Governments, and Non-Profit Organizations.
  - B) Subrecipients, except those which are governmental entities, shall comply with the requirements and standards of OMB Omni Circular 2 CFR Part 230, "Cost Principles for Nonprofit Organizations" or OMB Omni Circular 2 CFR Part 220, "Cost Principles for Educational Institutions," OMB Omni Circular 2 CFR Part 215, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations", and OMB Omni Circular 2 CFR Part 200 "Audits of States, Local Governments and Nonprofit Organizations", and compliance supplements, as applicable.
- 2) The above-referenced OMB Circulars, as well as Executive Order 11246, shall be incorporated by reference into all Subrecipient agreements.

#### Grantee Initiated Audit

In compliance with HUD regulations and the City of Birmingham requirements, the City (Grantee) may elect, at its discretion, to have conducted on its behalf, a full financial examination of the expenditure of funds provided pursuant to the terms of its agreement. Said examination will be in the form of a single audit or a limited scope audit and shall be performed by Certified Public Accountants who are independent of the Subrecipient to produce unbiased opinions, conclusions or judgments. The audit shall meet established independent criteria, shall be in compliance with OMB Omni Circular Title 2 CFR Part 200 and all other pertinent auditing standards as set forth in this agreement at Section VII: Subrecipient Audit. In the event of this action, the City shall formally notify the Subrecipient in writing. A copy of the audit report will be provided to the Subrecipient upon completion.

1. If the Subrecipient is awarded funding for the following year, the amount in question shall be restricted from use under the new agreement until such time as said exceptions are cleared to the satisfaction of the City.
2. Subrecipient shall assume complete responsibility for the reconciliation of any expenditures in the event that audit exceptions are discovered during the audit process. If the Subrecipient is awarded funding for the following year, the amount in question shall be restricted from use under the new agreement until such time as said exceptions are cleared to the satisfaction of the City. Subrecipients not funded for the following year shall be required to reimburse the City in full.

Comment 1

**Internal Audit**

The Internal Audit and Contract Compliance Division of the City maintains an aggressive internal auditing program that independently assesses the effectiveness of internal controls and recommends improvements thereto. Executive Order No. 39-82 as revised established the Internal Audit and Contract Compliance Division within the Mayor's Office and requires that an Annual Audit Plan be submitted at the beginning of each fiscal year outlining proposed audit activities.

This plan is structured to be consistent with the objectives established by the Grants Division and is comprised of requested and selected audits as the Internal Audit and Contract Compliance Division considers appropriate.

**Structure of Internal Audits:**

Internal Audits will be scheduled in accordance with priorities and consistent with the most efficient and effective use of available resources.

**Scope and Approach to Internal Audits:**

All audits are to be performed in accordance with generally accepted government auditing standards and the International Standards for the Professional Practice of Internal Auditing and shall include tests necessary to determine if audited activities are administered in a manner sufficient to provide reasonable assurances that:

- (1) Activities are carried out and transactions are executed in accordance with management authorization and directives;
- (2) Records are kept of activities and transactions are recorded in a manner that will permit financial statements to be prepared in accordance with generally accepted accounting principles;
- (3) Access to assets is controlled; and
- (4) The physical existence of assets is periodically confirmed with recorded amounts.

Procedures to be performed in the execution of audit engagements will include, but shall not be limited to:

- (1) A review and appraisal of the adequacy of accounting, administrative and other operating controls;
- (2) Verification of the extent of compliance with applicable laws, regulations, and policies;
- (3) Verification that City assets are accounted for and properly safeguarded from loss and misuse;
- (4) An appraisal of the effectiveness, efficiency and economy of the City's organizational functions and activities; and

- (5) Recommendations to the Internal Audit Committee, department heads, division heads, and other City managers regarding procedural changes necessary for improved operations.

#### **Independent External Audit**

The City and its CDBG subrecipients are subject to the Single Audit Act. A "Single Audit" encompasses the review of compliance with program requirements and the proper expenditure of funds by an independent Certified Public Accountant. All findings and associated evidence will be reported directly from the independent Certified Public Accountant to the Internal Audit Division of the Mayor's Office. A Corrective Action Plan is then completed by the City and submitted to the independent Certified Public Accountant to accompany the Audit file of that year.

#### **Allowable Costs**

To be allowable under Federal awards, costs incurred by the City or any Subrecipient of Federal dollars must meet the following general criteria:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards;
- Be authorized under State or local laws or regulations;
- Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items;
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit;
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost;
- Be determined in accordance with generally accepted accounting principles;
- Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation; and
- Be adequately documented.

If you have any questions, please contact myself or Nigel Roberts, Deputy Director, [nigel.roberts@birminghamal.gov](mailto:nigel.roberts@birminghamal.gov), at (205)254-2723.

Sincerely,



John Colon, Director

## OIG Evaluation of Auditee Comments

Comment 1 The City communicated with the Mayor's office and scheduled an internal audit of its CDBG- DR program to be conducted on August 1, 2017. The City executed Executive Order No. 39-82, as revised, which established the Internal Audit and Contract Compliance Division within the Mayor's office and required that an annual audit plan be submitted at the beginning of each fiscal year outlining proposed audit activities.

We commend the City for scheduling a date for an internal audit of its CDBG-DR program and on its efforts to update the policies to reflect an internal audit process. The City should work with HUD to ensure that its internal audit complies with HUD regulations and the policies and procedures are submitted and certified to HUD.

Comment 2 The City hired a consultant to assist with updating and finalizing its procurement policies and procedures for HUD's approval and planned to have a completed manual by July 31, 2017.

We acknowledge the City's efforts in updating its procurement policies and procedures to comply with 2 CFR 200.317-326. The City should work with HUD to ensure that the updates to its procurement policies and procedures are adequate.