



Issue Date April 12, 2011
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Audit Report Number 2011-AT-1007
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TO: Maria R. Ortiz, Director of Community Planning and Development, Miami Field Office, 4DD

FROM: //signed//  
James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The City of Miami Gardens, FL, Did Not Adequately Support Salary Costs Charged to the Neighborhood Stabilization Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We reviewed the City of Miami Gardens, FL's (City) Neighborhood Stabilization Program (program). Our objective was to determine whether the City administered its program in accordance with applicable U.S. Department of Housing and Urban Development (HUD) requirements. Specifically, we wanted to determine whether (1) expenditures were allowable and (2) activities met the program's national objectives. We selected the City for review because it received approximately \$6.9 million in program funds and as of September 30, 2010, had spent \$4.3 million in program funds. HUD ranked the City as high risk in its January 2010 annual risk assessment because it received more than three times its 2008 entitlement allocation and has not been monitored since becoming an entitlement grantee in 2006.

### **What We Found**

The City met the national objective when it sold the eight program properties reviewed to qualified low-, moderate-, and middle-income persons. However, it

did not adequately support salary expenditures allocated to the program. This condition occurred because the City did not have effective controls in place to ensure that salary allocations were properly documented. Without supporting documentation to substantiate the allocation of actual services performed by personnel, there was no assurance that the salary expenditures totaling \$426,852 were accurate and program related.

### **What We Recommend**

We recommend that the Director of the Miami Office of Community Planning and Development require the City to (1) provide supporting documentation or reimburse its program \$426,852 for unsupported salary expenditures from non-Federal funds; (2) develop and implement a salary allocation method that complies with 2 CFR (Code of Federal Regulations ) Part 225; and (3) develop, implement, and enforce written procedures for salary allocation among program and other Federal and non-Federal programs to include documentation requirements for its employees.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We discussed the finding with the City during the audit. We provided the draft report to City officials for their comments on February 23, 2011, and discussed the report with them at the exit conference on March 4, 2011. The City provided its written comments to our draft report on March 25, 2011. In its response, the City disagreed with finding 1.

The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVE**

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The Neighborhood Stabilization Program (program) was authorized under Title III of the Housing and Economic Recovery Act of 2008 and was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. The goal of the program is to purchase and redevelop foreclosed-upon and abandoned homes and residential properties. The funding is provided through the U.S. Department of Housing and Urban Development (HUD). HUD allocated \$3.92 billion on a formula basis to States, territories, and local governments.

On March 2, 2009, HUD awarded the City of Miami Gardens (City) approximately \$6.9 million in program funds. Organized under the assistant city manager, the City's Department of Community Development is responsible for administering the program and other grant funds it receives from Federal, State, and local government sources to aid in the development of a viable urban community. This department was formed and received its first allocation of HUD funds in October 2006. The primary purpose of this department is to provide decent housing, a suitable living environment, and the expansion of economic opportunities for persons and families of low-, moderate-, and middle-income.

As of September 30, 2010, the City had spent \$4.3 million in program funds, which included \$202,604 in program income. It used the funds to acquire 50 properties. Of the 50 properties, 8 were acquired, rehabilitated, and sold to income-eligible households. In addition, the City had spent \$454,016 in program funds for salary expenditures as of November 30, 2010. These expenditures accounted for the salaries of eight employees, four of whom are still employed by the City.

Our audit objective was to determine whether the City administered its program funds in accordance with applicable HUD requirements. Specifically, we wanted to determine whether (1) expenditures were allowable and (2) the activities met the program's national objectives.

## Finding 1: The City Did Not Adequately Support Salary Expenditures Allocated to the Program

The City did not maintain adequate supporting documentation to demonstrate that it properly allocated salaries to the program. This condition occurred because the City did not have effective controls in place to ensure that salary allocations were properly documented. Without supporting documentation to substantiate that the salary allocations related to actual services performed by personnel, there was no assurance that the salary expenditures were accurate and program related. Therefore, the \$426,852 allocated to the program for salaries was unsupported.

### Unsupported Salary Allocation

The City did not maintain adequate supporting documentation to demonstrate that it properly allocated salaries to the program. Regulations at 2 CFR (Code Federal Regulations) Part 225, appendix B, paragraph 8h(4), require that when employees work on multiple activities, a distribution of their salaries or wages be supported by personnel activity reports or equivalent documentation.

As of November 30, 2010, HUD had reimbursed the City \$454,016 in program salary expenditures. The City charged these salary expenditures directly to the applicable program activities in addition to the planning and administration activity as permitted by HUD.<sup>1</sup>

Activity #	Activity title	Expenditures
001	Permanent Housing for Household Earning <50% AMI [area median income]	\$ 31,543
003	Acquisition	\$116,309
004	Housing Rehabilitation Single Family	\$ 81,608
005	Homeownership Assistance	\$ 21,455
006	Program Administration	\$203,101
<b>Total</b>		<b>\$454,016</b>

Based on the City's allocation plan, salary expenditures accounted for the salaries of four employees who worked solely for the program and four employees who worked on multiple programs. In one instance, the City indicated that one employee was charged 100 percent to the program, although the employee worked with multiple programs.

<sup>1</sup> Community Development Block Grant Program – Guide to National Objectives & Eligible Activities for Entitlement Communities, section 2-77, Program Administration Costs, requires that when an employee works in multiple activities that are eligible as administration costs under 24 CFR 570.206 and 570.201 through 570.204, the grantee must maintain appropriate time distribution records.

The City charged these salary expenditures based on an estimated percentage. It did not require its employees to maintain timesheets or other documents<sup>2</sup> to support the actual time spent among the program activities and other Federal and non-Federal programs. Regulations at 2 CFR Part 225, appendix B, paragraph 8h(5)(e), state that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes.

During the audit, the City was able to provide some documentation to support a portion of the hours worked and charged to the program. Therefore, we reviewed the documents and reduced our questioned costs by \$27,164 (see table below).

Employee	Salary expenditures allocated to program funds				
	Percentage allocated to program	Activity 006	Activities 001-005	Supported salary adjustment	Total unsupported cost
1*	40	\$120,955	-	(\$ 8,594)	\$112,361
2	70	-	\$ 66,699	-	\$ 66,699
3*	70	-	\$ 21,563	(\$ 6,622)	\$ 14,941
4	20	\$ 8,109	-	-	\$ 8,109
5	100	\$ 24,274	\$ 24,274	-	\$ 48,548
6*	100	-	\$ 49,357	(\$ 2,467)	\$ 46,890
7	100	-	\$ 14,380	-	\$ 14,380
8*	100	\$ 49,762	\$ 74,643	(\$ 9,481)	\$114,924
	<b>Total</b>	<b>\$203,100</b>	<b>\$250,916</b>	<b>(\$27,164)</b>	<b>\$426,852</b>

\* Current City employees administering the program

The condition described above occurred because the City did not maintain effective management controls to ensure that salary allocations were properly documented. Specifically, it did not have written procedures for salary allocation among the program and other Federal and non-Federal programs. The City agreed with our finding and explained that it believed the methodology it used to allocate salary expenditures was adequate. It indicated that upon learning of our finding, it had begun to account for the hours worked among the programs and activities and would formally implement a system to keep track of hours worked.

Without supporting documentation to substantiate salary allocations in relation to actual services performed by personnel or some type of quantifiable measure of employee effort, there was no assurance that salary expenditures were accurate and program related. As a result, the City allocated \$426,852 in unsupported salaries to the program.

<sup>2</sup> Regulations at 2 CFR Part 225, appendix B, paragraph 8h(3), require that when employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

## **Conclusion**

The City did not have adequate records to support that it properly allocated salaries to the program. This condition occurred because the City did not have effective controls in place to ensure that salary allocations were properly documented. As a result, there was no assurance that salary expenditures totaling \$426,852 charged to the program were accurate.

## **Recommendations**

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

- 1A. Provide supporting documentation or reimburse its program \$426,852 for unsupported salary expenditures from non-Federal funds.
- 1B. Develop and implement a salary allocation method that complies with 2 CFR Part 225.
- 1C. Develop, implement, and enforce written procedures for salary allocation among the program and other Federal and non-Federal programs to include documentation requirements for its employees.

## SCOPE AND METHODOLOGY

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Our audit objective was to determine whether the City administered its program funds in accordance with applicable HUD requirements. Specifically, we wanted to determine whether (1) expenditures were allowable and (2) the City met the program national objectives. To accomplish the audit objective, we

- Reviewed relevant HUD regulations,
- Reviewed relevant City policies and procedures,
- Interviewed HUD and City officials,
- Reviewed City financial records related to program expenditures,
- Reviewed reports from HUD's Disaster Recovery Grant Reporting System, and
- Reviewed City recipient and property files and records.

The City was selected for review because it received approximately \$6.9 million in program funds and as of September 30, 2010, had spent \$4.3 million in program funds. In addition, HUD ranked the City as high risk in its January 2010 annual risk assessment<sup>3</sup> because (a) since becoming an entitlement grantee in 2006, the City was not monitored; (b) it may not meet its obligation deadline; and (c) it received more than three times its 2008 CDBG allocation. In 2008, the City received \$1.3 million in CDBG funds.

Based on the City's quarterly performance report, as of September 30, 2010, the City had expended \$4.3 million in program funds, which included \$202,604 in program income. The report indicated that the City had progressed with activities related to the acquisition and rehabilitation of single-family properties. The City had acquired 50 properties, 8 of which were acquired, rehabilitated, and sold to income-eligible households. As a result, to capture the whole process from acquisition to resale of the property, we focused on reviewing these eight properties. To determine whether the City met the program's national objectives, we reviewed the eight properties that had expenditures of more than \$1 million, which represents 25 percent of the total program funds expended.

In addition, from the eight property files selected for national objective testing, we selected the four properties with the largest dollar amounts to review for compliance with cost allowability requirements. These four properties represented approximately \$577,396 of the total \$4.3 million expended or 13.4 percent. Due to the volume of transactions for each property, we selected the three largest dollar transactions from each property totaling approximately \$490,139.

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<sup>3</sup> HUD performed its Risk Assessment in January 2010 prior to conducting a monitoring review of the City in March 2010. In addition, as of September 2010, the City had obligated all of its Program funds.



The results of this audit apply only to the items reviewed and cannot be projected to the universe of activities.

Based on interviews with City officials, we found that the City charged salary expenditures to program administration and applicable program activities based on an estimate. Therefore, we selected 100 percent of salary expenditures for review. The City provided a list of salary expenditures totaling \$454,016 as of November 30, 2010. We assessed the reliability of this list by (1) interviewing City officials about the data, (2) reviewing existing documentation related to the data source, and (3) tracing data to HUD's Disaster Recovery Grant Reporting System for accuracy and completeness. We assessed that the list was unreliable because the City did not have records to support its salary allocation percentages. Without supporting documentation to substantiate the salary allocations as they related to the actual services performed by personnel, the allocated percentages and related salary expenditures may have been inaccurately charged to the program. Since the total salary expenditures contained in the list were recorded in HUD's Disaster Recovery Grant Reporting System; we consider these expenditures in HUD's system as unreliable. We used the list for purposes of determining questioned costs and recommended that the City ensure that it properly supports its salary allocation percentages.

Our review generally covered the period March 1, 2009, through September 30, 2010, and was extended as necessary during the audit. Our review was conducted from November 2010 through February 2011 at the City's Community Development Department located at 1515 Northwest 167 Street, Building 4-190, Miami Gardens, FL.

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

# 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.

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## Relevant Internal Controls

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

- Controls over program operations;
- Controls over the reliability of data;
- Controls over compliance with laws and regulations; and
- Controls over the safeguarding of resources against waste, loss, and misuse.

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 City did not maintain adequate supporting documentation to demonstrate that it properly allocated salaries to the program (see finding 1).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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<u>Recommendation number</u>	<u>Unsupported 1/</u>
1A	\$426,852

1/ 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

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### Ref to OIG Evaluation

### Auditee Comments



## City of Miami Gardens

*Shirley Gibson*  
Mayor

*Aaron Campbell Jr.*  
Vice Mayor

*Lisa C. Davis*  
Council Member

*Oliver G. Gilbert III*  
Council Member

*Sharon Pritchett*  
Council Member

*Felicia Robinson*  
Council Member

*André Williams*  
Council Member

*David Williams Jr.*  
Council Member

*Dr. Danny O. Crew*  
City Manager

*Ronetta Taylor, MMC*  
City Clerk

*Sonja K. Dickens*  
City Attorney

March 24, 2011

James D. McKay  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Region 4 Office of Inspector General  
Office of Audit, Box 42  
75 Spring Street, SW. Room 330  
Atlanta, GA. 30303-3388

RE: Response to OIG's Audit of Neighborhood Stabilization Program

Dear Mr. McKay:

This serves as the City's formal response to the above referenced audit. I would first like to thank you and the assigned audit team for their professionalism and understanding while conducting this audit. It is recognized that their task was not an easy one, and our staff sought to be as accommodating as possible of the various requests made by the audit team, while still maintaining normal departmental operations and serving our constituents.

Before providing a response to the *single* finding in the audit, I did want to clarify that the correct amount of the City's NSP Grant was \$6,866,119.02, not \$6.9M as indicated in the audit. We would also ask that clarification be given as to the City's "high risk" ranking. We are concerned that an independent reader of the audit report may interpret that ranking inconsistently with the intent of the Office of the Inspector General (OIG). Further, the City disagrees with the OIG's determination of an Audit Finding. Rather, based on the extent of the audit and on the City's level of activity/expenditures, it is the City's contention that the more appropriate determination be categorized as an audit Concern.

**Finding 1:** The City Did Not Adequately Support Salary Expenditures Allocated to the Program

**City's Response:** The justification provided for this Audit Finding is found in 2 CFR (Code of Federal Regulations) Part 225, appendix B, paragraph 8h(4). This CFR refers to the cost principles for state and local governments (Office of Management and Budget Circular A-87). Specifically, the referenced regulation requires that when employees work on multiple activities that a statistical sampling system or other substitute system be approved by the Cognizant Federal Agency. When the City was awarded the NSP grant, HUD required the submission of an Annual Action Plan Amendment, along with a table of organization reflecting the staff that would be working on administering this grant.

**Comment 1**

**Comment 2**

## Comment 2

It was explained by the HUD Field Office that the purpose of this submission was to show that the Grantee had the personnel in place to carry out the activities required under NSP, while still undertaking the other activities reflected in the Annual Action Plan. The City has no record of receiving notification from the HUD Field Office, whom we assume to serve in the role of the Cognizant Federal Agency, that approval was needed of the methodology being utilized to allocate the salary expenditures for this program. Moreover, the City was selected by the Community Planning Division to be the subject of an On-Site Compliance Monitoring from March 29, 2010 through April 16, 2010 of the NSP. The City was advised that it was selected based on the amount of expenditures done to date. No Findings were identified as a result of this monitoring. However, there were two (2) Concerns related to NSP. Concern 1 dealt with the obligation rate of the portion of the grant set-aside for households earning 50% of area median income or below. Concern 2 dealt with the rate of drawdown for expenditures related to activity # 3 (administration).

## Comment 3

The City's current method of salary allocation for the NSP is done on a percentage basis. At the time the budget is developed, Staff is required to make a projection of the amount of time each staff member will spend working on this program. Noteworthy are the fact that 1) the NSP funding was to be budgeted over a four (4) year period; notwithstanding, local government budgets are done on an annual basis, which means that staff had to forecast 1/4<sup>th</sup> of the administrative portion of the City's allocation each year. This initial forecast was done with no knowledge of the complexity of the NSP, thus it begs to reason that the City may have overlooked additional staff members time needed to successfully carry out the NSP activities. 2) The salary allocations reflected in the City's NSP budget do not include other staff components that are germane to carry out the required activities (Finance Staff, City Attorney's Office, Purchasing Staff, City Manager). The salaries of these individuals were not included in the table of organization submitted to HUD because it was the City's understanding that only the individuals working directly with the NSP were to be reflected in the document. And 3) based on the City's level of activity to date (100% allocation of NSP Funds, purchase of 50 properties, sale of 8 properties, expenditure of \$4.3M as of September 30, 2010 and \$202,604 in program income generated from the sale of the 8 properties), there should be no doubt that the 8 employees charged to the program (including 4 that are no longer with the City) have unequivocally worked on the program at the percentage rates reflected in the salary allocations. The fact that in some instances staff works on other programs is undergirded by the fact that the majority of the Community Development Staff works in excess of 40 hours per week. It should be noted that staff charged 100% to the program are not charged to any other program, despite any work done on these programs. It is further noted that the programs on which all Community Development Staff work are all federally funded.

Since becoming an entitlement city in 2006, the City has sought to undertake a number of programs to serve the low-moderate income individuals and households in this community. Despite a modest award amount as compared to other cities of similar population sizes, the City of Miami Gardens has been able to achieve significant accomplishments in virtually every project category. The successes of the various programs are attributed to staff's ability to multi-task, and often go above and beyond basic programmatic requirements. It was the City's intent in determining the required staffing levels to carry out NSP activities that the City not prematurely increase the staff size of the Community Development

**Comment 3**

Department beyond long-term sustainable levels once all of the NSP Funds were expended.

Nevertheless, the City recognizes the requirement reflected in the above referenced CFR's and is prepared to present a modified salary allocation schedule to the Cognizant Federal Agency for its approval going forward. It should be noted that the modified schedule will indeed include all components of City staff that have involvement (direct or indirect) in carrying out the NSP related activities. The City also disagrees with the OIG's determination that a lack of controls exist with respect to salary expenditures. The City prepares its budgets annually, which include salary allocations for the various programs and services it undertakes. At several points throughout the year, these allocations are reviewed and adjusted based on operational and staffing changes. Involved in these reviews are the pertinent department directors, Finance Director, Assistant/Deputy City Managers and the City Manager. The completion of the City's Single Audit for 2009, performed by external auditors, included a review of the NSP and did not reveal such finding. A copy of this audit report can be provided for your review should you so desire.

**Comment 4**

In conclusion, the City disagrees with the recommendation requiring the City's repayment of \$426,852. It is the City's position that the documentation required was submitted to HUD as part of the NSP Grant Agreement. If additional documentation (including approval of salary allocations) was required, it is the City's contention that said submission would have been a condition of the grant agreement or further, would have been identified during the Field Office's On-Site Compliance Monitoring.

**Comment 3**

The City is pleased that no other Findings were identified despite the City's significant expenditure of its NSP Funds to date, and the noted accomplishments by the City in the NSP. The City will immediately submit the modified salary allocation schedule to the HUD Field Office and begin to track the expenditure of staff time to ensure accuracy with the percentage allocation. The City of Miami Gardens remains committed to the expressed purpose of the Neighborhood Stabilization Program and will continue to serve the low to moderate income residents of this community within the parameters of the governing federal regulations. Should you have any questions regarding this response, please feel free to contact me at (305) 622-8005.

Sincerely,



Daniel A. Rosemond  
Assistant City Manager/Community Development Director

- C: Danny Crew, City Manager
- Patty Varney, Finance Director
- Liz Valera, NSP Administrator
- Maria Ortiz-Hill, CPD Director, Miami Field Office

## OIG Evaluation of Auditee Comments

**Comment 1** The City indicated that HUD awarded the City \$6,866,119.02 rather than \$6.9 million as stated in the report. In addition, it requested that OIG clarify why HUD ranked the City as “high risk.” The City also believed that the finding should be categorized as a concern as opposed to a finding.

The award amount of \$6.9 million stated in the report was the rounded amount of \$6,866.119. We clarified in the highlights and scope and methodology sections of the report why HUD ranked the City as “high risk”. The basis for the finding is appropriate since the City did not adequately support salary expenditures of \$426,852 in accordance with regulations 2 CFR Part 225, appendix B.

**Comment 2** The City justified the methodology it used to support its salaries expenditures by citing 2 CFR Part 225, appendix B, paragraph 8h(4) which allows grantees to support its employees’ salaries by using a statistical sampling system or other substitute system approved by the Cognizant Federal Agency. According to the City, it provided HUD with its Annual Action Plan amendment and an organizational table that reflected the staff that would be working on administering the grant. The City explained that HUD indicated that the submission of the amended action plan and the organization table served to show that the City had the personnel in place to carry out the NSP activities. However, HUD did not notify the City that it needed to approve the methodology it used to allocate its salary expenditures. Moreover, during HUD’s monitoring no findings were identified; rather HUD had two concerns that were not related with the methodology used to charge salary expenditures.

The purpose of the submission of the action plan and organization table was to determine whether the City had the capacity to administer the program. These documents did not serve as approval of the City’s allocation plan or support the City’s salary expenditures in accordance with 2 CFR Parts 225 paragraph 8h. If the City chose to do a cost allocation plan, as program administrator, it was required to submit a cost allocation plan to HUD. In addition, the budget cost allocation plan provided to the OIG during the audit to support salary expenditures was not sufficient. Regulations at 2 CFR Part 225, paragraph 8h(5)(e) specifically states that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.

**Comment 3** The City disagreed that it lacked controls with respect to salary expenditures. However, it agreed that it would present a modified salary allocation schedule to HUD going forward as required by 2 CFR 225 and begin to track the expenditure of staff time to ensure accuracy with the percentage allocation. The City explained that its salary allocation method was based on a percentage since it had to budget salaries over a four year period not taking in consideration additional staff members’ time needed to carry out the program. This budget was adjusted

as necessary. In addition, the City stated that its level of activity with the Program should be an indication that the eight employees that charged the program worked on the program at the rates reflected in the salary allocation. The fact that in some instances some staff works on other programs is undergirded by the fact that the majority of the Community Development staff works in excess of 40 hours. The City noted that staff that was charged 100% to the program did not charge to other programs despite any work done on these programs. It further noted that the other programs the City administered were federally funded. Furthermore, the City stated that its 2009 Single Audit report did not reveal a problem with its method of allocating salary expenditures.

The City did not have timesheets or other documents to substantiate the time charged to the Program in accordance with 2 CFR 225. The City provided the OIG with a budget cost allocation plan. Since a budget is a projection and it does not reflect the actual time spent on the Program, the budget cannot be used as support. In addition, although the City's allocation plan indicated that one employee worked 100 percent on the program, the City stated that the employee worked with multiple programs. Without supporting documentation to substantiate the budgeted salary allocations in relation to actual services performed by personnel, there was no assurance that salary expenditures were accurate and program related. As a result, the City lacked controls with respect to salary expenditures and did not have written procedures for salary allocation among the program and other federal and non federal programs. Thus, the City needs to strengthen its controls over salary expenditures. As administrator of other federally funded programs, the City should be aware of the salary requirements according to 2 CFR 225. Additionally, it is required to maintain records, which adequately identify each grant separately according to 24 CFR 85.20.

**Comment 4** The City disagreed with recommendation 1A requiring repayment of \$426,852 in unsupported salary costs. The City believed that it provided the required documentation to HUD as part of the Program agreement. It is the City's contention that if additional documentation was warranted it should have been a condition of the grant agreement or further, should have been identified by HUD in its monitoring review.

The City did not provide HUD with a salary cost allocation plan. The Federal Register<sup>4</sup> explained that to receive program funding, each grantee was required to submit an action plan substantial amendment. In addition, since the City received three times its 2008 CDBG allocation, it was required to submit a management plan describing how it determined that it possessed adequate staff and other resources necessary to administer the program funds. The documentation provided to HUD did not serve as support for its salary costs. The grant

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<sup>4</sup> Federal Register Notice 73 FR 58330, Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008 [Docket no. FR-5255-N-01] (issued October 6, 2008).



agreement signed by the City refers to 24 CFR 570, which explains that as grant administrator, the City must abide by Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," which has been relocated to 2 CFR 225. Since the City did not have adequate records to support that it properly allocated salaries to the program, there was no assurance that salary expenditures totaling \$426,852 charged to the program were accurate.