



# Shelby County, TN

## Community Development Block Grant Disaster Recovery Funds



**To:** Mary C. Wilson, Director, Community and Planning Division, 4JD

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

**Subject:** Shelby County, TN, Administered Its Community Development Block Grant Disaster Recovery Program 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 Shelby County'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 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: 2017-AT-1002**

**Date: January 18, 2017**

**Shelby County, TN, Administered Its Community Development Block Grant Disaster Recovery Program Funds for Infrastructure in Accordance With HUD Requirements**

## Highlights

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### What We Audited and Why

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We audited Shelby County's Community Development Block Grant Disaster Recovery (CDBG-DR) grant. We selected the County for review in accordance with our annual audit plan and because the County received more than \$7.4 million in funding to recover from severe storms, tornadoes, straight-line winds, and flooding that occurred in April 2011. Our audit objective was to determine whether the County ensured that (1) funds were spent only for eligible activities and supported disbursements, (2) it adequately monitored activities and performance, (3) participants did not receive duplicate benefits, (4) an additional disaster recovery grant received from the State of Tennessee was properly used, and (5) procurement of goods and services was conducted in accordance with applicable requirements.

### What We Found

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The County administered its CDBG-DR funds for infrastructure in accordance with HUD requirements. It ensured that funds were spent for eligible activities, disbursements were supported, activities and performance were adequately monitored, participants did not receive duplicate benefits, additional disaster recovery funds received were used properly, and the procurement of goods and services was generally conducted in accordance with applicable requirements.

### What We Recommend

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This report contains no recommendations.

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# Background and Objective

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Shelby County, with offices in Memphis, TN, is the State's largest county, both in terms of population and geographic area. The County is governed by a mayor-commissioner form of government under a home rule charter that went into effect on September 1, 1986. The mayor and commissioners serve 4-year terms. Together, the administration and the Board of County Commissioners are responsible for governing the most populous of Tennessee's 95 counties. The County is also part of the Memphis Metropolitan Statistical Area, which comprises eight counties in three states: Tennessee, Mississippi, and Arkansas.

On May 29, 2013, the U.S. Department of Housing and Urban Development (HUD) issued a Federal Register notice,<sup>1</sup> which advised the public of a second allocation of \$514 million in Community Development Block Grant Disaster Recovery (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 or 2012 for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization. HUD awarded the County more than \$7.4 million from this second allocation. On December 3, 2013, HUD approved the County's action plan. The action plan identified the purpose of the County's allocation, including criteria for eligibility and its long-term recovery needs. On January 13, 2014, HUD approved the grant agreement, which obligated more than \$7.4 million in funding to the County. The Disaster Relief Appropriations Act of 2013 required the County to spend obligated funds within 2 years of the date of obligation.

As of January 13, 2016, the County had spent 100 percent of its funding for infrastructure totaling more than \$7.4 million for activities completed by the County and its two subrecipients.

Our audit objective was to determine whether the County ensured that (1) funds were spent only for eligible activities and supported disbursements, (2) it adequately monitored activities and performance, (3) participants did not receive duplicate benefits, (4) an additional disaster recovery grant received from the State of Tennessee was properly used, and (5) procurement of goods and services was conducted in accordance with the 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 County Administered Its CDBG-DR Funds for Infrastructure in Accordance With HUD Requirements**

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Shelby County ensured that its CDBG-DR funding for infrastructure was administered in accordance with HUD requirements. Specifically, it ensured that funds were spent for eligible activities, disbursements were supported, activities and performance were adequately monitored, participants did not receive duplicate benefits, additional disaster recovery funds received were used properly, and procurement of goods and services was generally conducted in accordance with applicable requirements.

### **Eligible Activities and Supported Expenditures**

We reviewed seven expenditures totaling more than \$3 million of the nearly \$7.5 million disaster recovery grant. Table 1 lists the total funds received by the County and its subrecipients and the amount of expenditures reviewed. In addition to program administration, the County used the grant funds for eight activities completed by it and two subrecipients: the City of Bartlett and utilities provider, Memphis Light, Gas, and Water (MLGW). A complete list of the activities is provided in appendix A of this report. Seven of the activities were completed under HUD's national objective<sup>3</sup> of meeting an urgent need. For example, the work completed by MLGW included restoration of the electrical grid following severe storms, which met the national objective of meeting a community need having a particular urgency because existing conditions posed a serious and immediate threat to the health or welfare of the community. The remaining activity, Raleigh Millington bridge construction,<sup>4</sup> was completed under the national objective of providing benefit to low- and moderate-income persons. Based on the census tract data used by the County, more than 60 percent of the local population expected to use the bridge for commuting purposes included low- and moderate-income persons. We determined that the County and its subrecipients were eligible to receive disaster recovery grant funds as they were located and the infrastructure work was completed in a presidentially declared disaster area. We reviewed the general ledger, invoices, and canceled checks and determined that the expenses were supported and the activities were eligible.

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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 as follows: (1) benefiting low- and moderate-income persons, (2) preventing or eliminating 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> The County did not receive funding from the U.S. Department of Transportation. Nonetheless, as stated in the Background and Objective section of the report, funding via HUD's CDBG-DR was provided under the Appropriations Act for necessary expenses related to disaster relief; long-term recovery; restoration of infrastructure and housing such as restoration and repair of a bridge; and economic revitalization.

**Table 1: Funding received and expenditures reviewed**

Entity	Description of activity	Total amount of grant per entity and expense type	Amount of expenditures reviewed
County	Raleigh Millington bridge	\$4,900,363	\$784,013
County	Program administration	373,200	102,335
Bartlett	Bartlett slope repair	40,114	35,713
MLGW	Electrical system restoration (FEMA*-1979-DR)	2,150,323	745,566
MLGW	Electrical system restoration (FEMA-1974-DR)		552,562
MLGW	Electrical system restoration (FEMA-1978-DR)		852,195
<b>Total</b>		<b>7,464,000</b>	<b>3,072,384</b>

\* FEMA = Federal Emergency Management Agency

### **Adequate Monitoring**

We reviewed the County’s monitoring of activities and performance and its receipt and awarding of disaster recovery funds. The County adequately monitored activities and performance and ensured that participants did not receive duplicate benefits and additional disaster recovery funds received were used properly. Specifically, the County required its subrecipients to provide a breakdown of the benefits received from other sources, such as the Federal Emergency Management Agency and Tennessee Emergency Management Agency, to ensure that the awarding of disaster recovery funds would not duplicate benefits. Further, regarding its own activity and performance, the County monitored and tracked the monthly invoices and payouts to the construction and design contractors by source of funds for the activity. In addition, the County maintained appropriate records to identify that it used all funds received from the State of Tennessee for the bridge construction activity. It also provided a detailed schedule and certified to the State that it did not receive duplicate benefits.

### **Generally Appropriate Procurement of Goods and Services**

We reviewed five contracts representing 100 percent of procurements, which totaled more than \$9.7 million,<sup>5</sup> to determine whether goods or services were procured in accordance with HUD’s requirements at 24 (Code of Federal Regulations) CFR Part 85. For one procurement, for which \$250 of the disaster recovery grant was used, a request for proposals was not advertised. We issued a memorandum to inform HUD of this minor deficiency. For the remaining procurements of goods and services, the recipients procured the goods or services in accordance with HUD’s requirements. Specifically, although the activities completed included meeting an urgent need

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<sup>5</sup> The procurement contract amount was more than the disaster recovery grant as funds from other sources were also used in paying the contract.

and partially consisted of preaward costs,<sup>6</sup> the recipients properly advertised and reviewed all bids; accepted the lowest, most responsible bid; and allowed for a competitive bid process. Additionally, the recipients reviewed the winning contract (as well as change orders) for cost reasonableness. Further, the recipients properly solicited proposals, evaluated the contractors' qualifications, and reviewed the proposals for cost reasonableness according to prepared cost estimates. For example, the cost estimates for all sealed-bid contracts were completed before the advertising and opening of the bids. Table 2 provides a procurement timeline of sealed-bid contracts. Finally, the contract included all mandatory language, an adequate description of the scope of work, completion dates, payment schedules, and the appropriate signatures.

**Table 2: Cost estimates prepared for sealed-bid contracts**

Service contracted	Date cost estimate prepared	Date service advertised	Date bid opened	Date contract executed
Construction of Raleigh Millington bridge	2/7/2013	3/26/2013	4/11/2013	6/26/2013
Construction of Bartlett slope repair	5/2/2013	5/7/2013	5/23/2013	6/27/2013

### **Conclusion**

The County had developed controls and procedures for its CDBG-DR program that complied with applicable HUD requirements. For the seven expenditures and generally all of the procurement contracts, the County followed its controls and procedures and maintained documentation to ensure that expenses were supported and for eligible activities, participants did not receive duplicate benefits, and goods and services were procured in accordance with HUD requirements.

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<sup>6</sup> 2 CFR Part 225, Appendix B, Paragraph 31, defines pre-award costs as costs incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency. The County's action plan identified preaward costs and HUD approved the plan. Twenty-nine percent of the CDBG-DR funds were used for preaward costs.



# Scope and Methodology

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We performed our audit work between June and August 2016 at the County's office located at 1075 Mullins Station Road, Memphis, TN, and at our office in Atlanta, GA. Our review covered the period April 2011 through May 2016.

To accomplish our objective, we

- Interviewed County personnel involved with the management of the CDBG-DR grant and HUD officials;
- 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 HUD laws, regulations, and other HUD program requirements relevant to CDBG-DR funding;
- Reviewed the County's action plan, policies, procedures, and organizational charts;
- Reviewed the County's audited financial statements and Disaster Recovery Grant Reporting system<sup>7</sup> reports;
- Reviewed the approved grant agreement between the County and HUD and approved contracts between the County and its subrecipients;
- Reviewed the general ledger, invoices, and canceled checks to verify that the funds were spent for activities that were eligible and supported;
- Ensured that additional disaster funds received from the State of Tennessee were adequately spent and tracked; and
- Completed a site visit to the County's infrastructure project to observe the work being completed.

The universe consisted of 46 expenditures totaling more than \$7.4 million. We selected and reviewed four expenditures based on the highest percentage of the grant spent per draw for each entity and program administration. In addition, based on expenditures being classified as administrative costs, we expanded the sample to include the remaining three expenditures for one subrecipient to ensure that project administration costs for the grant did not exceed the allowable 5 percent limit. We reviewed more than \$3 million, or 41 percent, of the disaster recovery grant. The results of the sample review are attributable only to the specific items reviewed and cannot be projected to the universe of transactions.

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<sup>7</sup> Disaster Recovery Grant Reporting is a HUD system that is primarily used by grantees to access grant funds and report performance accomplishments for grant-funded activities.

We reviewed 100 percent of the 5 procurement contracts totaling more than \$9.7 million to determine whether goods or services were procured in accordance with HUD's requirements.

To achieve our survey objective, we relied in part on computer-processed data. We used the data to select a sample of expenditures 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 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.

## **Relevant Internal Controls**

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

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 County's internal controls.

# Appendixes

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## Appendix A

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**Schedule of CDBG-DR Activities**

Activity	Recipient	Grant amount
Raleigh Millington Bridge Restoration & Recovery	County	\$4,900,363
Bartlett Blvd. Bridge Slope Repair	Bartlett	35,713
FEMA-1978-DR Electrical System Restoration	MLGW	852,195
FEMA-1979-DR Electrical System Restoration	MLGW	745,566
FEMA-1974-DR Electrical System Restoration	MLGW	552,562
Bartlett Emergency Protective Measures	Bartlett	3,599
Bartlett Sewer Lift Station Repairs	Bartlett	192
Bartlett Wastewater Overflow Control	Bartlett	610
Administration	County	373,200
<b>Total</b>	<b>N/A</b>	<b>7,464,000</b>

Auditee Comments



**Shelby County Government  
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**Mark H. Luttrell, Jr.  
Mayor**

December 9, 2016

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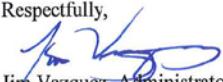
RE: Audit Report for Shelby County, Tennessee's Community Development Block Grant  
Disaster Recovery (CDBG-DR) Grant

Dear Ms. Irons,

I have reviewed the audit report for Shelby County, Tennessee's Community Development Block Grant Disaster Recovery (CDBG-DR) Grant that was forwarded to my attention on December 1, 2016. After a complete review of the report and the recommendations associated with the draft, as well as an exit interview with others involved in the audit (on December 7, 2016); I would like to let you know that Shelby County has no further comment on either the audit or the draft report.

If you have any other questions, please contact me at [jim.vazquez@shelbycountyttn.gov](mailto:jim.vazquez@shelbycountyttn.gov) or at (901) 222-7602.

Respectfully,

  
Jim Vazquez, Administrator  
Department of Housing

Cc: Rick Copeland, Director, Division of Planning and Development  
Israel Henry, Finance Manager, Department of Housing  
Scott Walkup, Manager Department, of Housing  
Alfred Garrett, Grant Coordinator, Department of Housing