



Issue Date	September 17, 2009
Audit Report Number	2009-DE-1005

TO: LeRoy Brown, Director, Denver Office of Community Planning and Development, 8AD

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: Adams County, Colorado, Did Not Have Adequate Controls over Its Block Grant Funds

## **HIGHLIGHTS**

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

We audited Adams County's Community Development Block Grant (Block Grant) program due to weaknesses in internal controls found during our review of Adams County's HOME Investment Partnerships Program. We reported these weaknesses in our audit report 2009-DE-1001, issued February 11, 2009.

The objective of the audit was to determine whether Adams County's Community and Economic Opportunity Department (Department) had adequate controls over the administration of its Block Grant funds.

### **What We Found**

The Department did not have adequate controls over its Block Grant funds. Specifically, it did not (1) have written policies and procedures for the administration of its Block Grant funds, (2) monitor the use of its Block Grant funds, (3) maintain documentation showing that its activities met national objectives, (4) compare disbursement requests to existing contracts to ensure that Block Grant funds were spent in accordance with the contract, and (5) have a process in place to eliminate known conflicts of interest.

As a result, Adams County spent more than \$1.2 million on ineligible Block Grant activities, awarded \$307,912 in Block Grant funds without amending its written agreements with the subrecipients, and did not ensure that more than \$1.6 million in Block Grant activities met a national objective.

### **What We Recommend**

We recommend that the U.S. Department of Housing and Urban Development (HUD) ensure that Adams County reimburses its Block Grant funds from nonfederal funds for any ineligible Block Grant expenditures, provides supporting documentation showing that the Block Grant funds met a national objective, implements an acceptable internal control structure by preparing and implementing effective policies and procedures, and receives technical assistance from HUD to ensure compliance.

For each recommendation 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 provided the discussion draft of the audit report to Adams County on August, 26, 2009, and requested its comments by September 10, 2009. Adams County provided its written response on September 9, 2009. It concurred with the findings and recommendations.

The complete text of Adams County's response can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVE

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Title I of the Housing and Community Development Act of 1974 established the Community Development Block Grant (Block Grant) program. Adams County and the U.S. Department of Housing and Urban Development (HUD) signed a funding approval/agreement each year that established the funding and terms for the Block Grant program. HUD awarded more than \$4 million in Block Grant funds to Adams County for the 2007 and 2008 grant years combined.

Grant year	Grant amount
2007	\$ 2,066,399
2008	\$ 2,013,040
<b>Total</b>	<b>\$ 4,079,439</b>

Adams County participates in the Block Grant program as an “urban county” under 24 CFR [Code of Federal Regulations] 570.307. As an urban county, Adams County entered into intergovernmental agreements to administer the Block Grant funds for the following cities and towns within its jurisdiction (urban entities): the Cities of Brighton, Commerce City, Federal Heights, Northglenn, and Thornton and the Towns of Bennett and Watkins.

HUD regulations require that all Block Grant activities meet one of the following national objectives:

- (1) Benefit low- and moderate-income persons,
- (2) Aid in the prevention or elimination of slums and blight, or
- (3) Meet certain community development needs having a particular urgency.

Adams County’s Block Grant program was administered by its Community and Economic Opportunity Department (Department). The Department’s offices are located in Westminster, Colorado, and Adams County’s main offices are located in Brighton, Colorado.

The objective of our review was to determine whether the Department had adequate controls over the administration of its Block Grant funds.

## RESULTS OF AUDIT

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### Finding: The Department Did Not Have Adequate Controls over Its Block Grant Funds

The Department did not have adequate controls over its Block Grant funds. This condition occurred because Adams County did not provide adequate oversight of the Department. As a result, Adams County spent more than \$1.2 million on ineligible Block Grant activities, awarded \$307,912 in Block Grant funds without amending its written agreements with the subrecipients, and did not ensure that more than \$1.6 million in Block Grant activities met a national objective.

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#### **The Department Lacked Internal Controls**

The Department did not have adequate controls over its Block Grant funds. Specifically, it did not

- Have written policies and procedures for the administration of its Block Grant funds,
- Monitor the use of its Block Grant funds,
- Maintain documentation showing that its activities met national objectives,
- Compare disbursement requests to existing contracts to ensure that Block Grant funds were spent in accordance with the contract, and
- Have a process in place to eliminate known conflicts of interest.

#### **The Department Had No Written Policies and Procedures**

The Department did not have written policies and procedures for the administration of its Block Grant funds. It provided a policies and procedures manual for its administration of Block Grant funds at our entrance conference; however, the manual was produced the week before the entrance conference and did not exist during our audit period. Department staff had no other written policies or procedures to aid them with their administration of Block Grant funds.

### **The Department Did Not Monitor Recipients**

The Department did not adequately monitor the use of its Block Grant funds. According to 24 CFR 570.501(b), a grantee is responsible for ensuring that Block Grant funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the Department of this responsibility. The Department could not provide evidence showing that it monitored the use of Block Grant funds for 46 of the 64 files (72 percent) reviewed.

### **The Department Did Not Maintain Sufficient Documentation**

The Department did not maintain documentation showing that its activities met national objectives. Regulations at 24 CFR 570.506(b) require grantees to maintain records demonstrating that each activity undertaken meets one of the national objectives. Adams County was not able to provide supporting documentation for 24 of the 64 files (38 percent) reviewed to show that the Block Grant activities met one of the required national objectives.

### **The Department Spent Funds without Amending Contracts**

The Department did not compare disbursement requests to existing contracts to ensure that Block Grant funds were spent in accordance with the contract. Regulations at 24 CFR 570.503 require a grantee to sign an agreement with the subrecipient before disbursing funds to the subrecipient. In 10 of the 64 (15 percent) files reviewed, the Department either provided additional Block Grant funds to subrecipients without amending the existing written agreements or allowed Block Grant funds to be used for activities other than those approved in the written agreement.

### **The Department Did Not Eliminate Conflicts of Interest**

The Department did not have a process in place to eliminate known conflicts of interest. Block Grant regulations at 24 CFR 570.611 establish the Block Grant conflict-of-interest provisions. Adams County awarded \$76,790 in Block Grant funds to a subrecipient, the executive director of which was the spouse of Adams County's Block Grant program manager. Adams County knew the conflict existed; however, it did not have controls in place to ensure that the program manager was removed from responsibility for the grant. We found documentation in the project file and in the subrecipient's files showing that the program

manager was involved in the administration of the grant. In addition, an elected official for one of Adams County's urban entities was a paid contractor for the same subrecipient. The elected official also served on Adams County's Housing Task Force and Community Development Advisory Board.

### **Adams County Did Not Provide Adequate Oversight**

Adams County did not provide adequate oversight of the Department. Specifically, Adams County relied solely on the Department to ensure compliance with all applicable federal regulations. It provided no oversight of the Department to ensure that it had written policies and procedures or adequate controls in place regarding the administration and disbursement of Block Grant funds.

### **Intended Program Benefits Might Not Be Realized**

Adams County spent more than \$1.2 million on ineligible Block Grant activities, awarded \$307,912 in Block Grant funds without amending its written agreements with the subrecipients, and did not ensure that more than \$1.6 million in Block Grant activities met a national objective. Also, the Block Grant funds spent on ineligible activities were not available to benefit low- and moderate-income individuals.

Adams County spent more than \$1.2 million on ineligible Block Grant activities. Of the \$1.2 million, \$76,790 was awarded to a subrecipient while conflicts of interest existed. In addition, Adams County spent nearly \$1.18 million in Block Grant funds to build a cedar fence along a four-lane arterial road. However, the boundaries of the area served were not clearly defined, and the income survey used by the urban entity only took into account the homes that directly abutted the arterial road. The income survey did not take into account the individuals who used the arterial road as commuters. Therefore, the nearly \$1.18 million in Block Grant funds spent on the fencing project was ineligible.

Adams County also awarded \$307,912 in Block Grant funds without amending its written agreements with the subrecipients. The \$307,912 provided to subrecipients or urban entities without amendments to the contracts were ineligible Block Grant disbursements.

In addition, Adams County could not support that more than \$1.6 million in Block Grant funds was used to meet a national objective.

## Conclusion

The Department did not have adequate controls over its Block Grant funds. This condition occurred because Adams County did not provide adequate oversight of the Department. Consequently, it needs to reimburse its Block Grant funds for any ineligible Block Grant activities and provide supporting documentation to HUD showing that the Block Grant funds met a national objective. In addition, it should prepare and implement effective written policies and procedures to ensure that it administers its Block Grant program in compliance with HUD regulations.

## Recommendations

We recommend that the Director of the HUD Denver Office of Community Planning and Development

- 1A. Ensure that Adams County reimburses its Block Grant fund from nonfederal funds for the \$1,178,032 in ineligible Block Grant expenditures related to the fencing project.
- 1B. Ensure that Adams County reimburses its Block Grant fund from nonfederal funds for any portion of the \$307,912 in Block Grant funds already spent that it awarded without entering into a written agreement with the subrecipient.
- 1C. Ensure that Adams County deobligates or puts under contract any portion of the \$307,912 in Block Grant funds not spent that it awarded without entering into a written agreement with the subrecipient.
- 1D. Ensure that Adams County reimburses its Block Grant fund from nonfederal funds for any portion of the \$76,790 in Block Grant funds already spent that it awarded to the subrecipient while conflicts of interest existed.
- 1E. Ensure that Adams County deobligates any portion of the \$76,790 in Block Grant funds not spent that it awarded to the subrecipient while conflicts of interest existed.
- 1F. Require Adams County to provide supporting documentation for the \$1,605,407 in unsupported Block Grant funds, showing that the funds were used to meet a national objective.
- 1G. Ensure that Adams County reimburses its Block Grant fund from nonfederal funds for any portion of the \$1,605,407 that it cannot support as meeting a national objective.

- 1H. Ensure that Adams County management and staff fully implement an acceptable internal control structure by preparing and implementing effective written policies and procedures for the administration of the Block Grant program in compliance with Block Grant regulations.
- 1I. Provide technical assistance to Adams County to ensure that its management and staff comply with Block Grant regulations.

## SCOPE AND METHODOLOGY

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Our review covered the period January 1, 2007, to December 31, 2008. We expanded the period as needed to evaluate historical and current information pertinent to our review. Our review was limited to Block Grant program activities.

To achieve our objective, we reviewed HUD and Adams County criteria and contracts, met with HUD and Adams County staff, and reviewed HUD and Adams County records.

We used Adams County Block Grant activity reports obtained from HUD's Integrated Disbursement and Information System to determine that Adams County spent funds on 64 Block Grant activities administered by subrecipients during our review period. We did not rely on this list for our conclusions. All conclusions were based on source documentation reviewed during the audit. We did not use computer-generated data as evidence to support our audit conclusions. We reviewed 100 percent of the Block Grant activity funds provided to and administered by subrecipients.

For the 64 Block Grant activities administered by subrecipients, we reviewed each project file for pertinent documentation such as contract applications, contract agreements, contract approval, Block Grant fund drawdowns, Block Grant project monitoring performed by Adams County, and project closeout.

We performed our audit work on site at Adams County's Westminster office located at 12200 Pecos Street, Westminster, Colorado, and at Adams County's Brighton office located at 450 South 4<sup>th</sup> Avenue, Brighton, Colorado, from February to June 2009. We briefed Adams County management on the results of the review on March 11, May 21, and July 1, 2009. We also briefed HUD's Denver Office of Community Planning and Development management on May 11 and June 15, 2009.

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. 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 an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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 Adams County's overall internal controls over its administration of Block Grant funds were relevant to our audit objectives, particularly with regard to

- Controls over awarding Block Grant funds.
- Controls over monitoring the use of Block Grant funds.
- Controls over disbursing Block Grant funds.
- Controls over eliminating conflicts of interest.
- Controls over identifying compliance with Block Grant national objective requirements.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weakness

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

- Adams County did not provide adequate oversight of staff responsible for administering Block Grant funds to ensure that staff managed the funds in accordance with HUD requirements (finding).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$1,178,032	
1B	\$307,912	
1D	\$76,790	
1F		\$1,605,407

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ 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

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09/09/2009 11:06 AM

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Subject FW: OIG Response

History:

 This message has been replied to and forwarded.

Todd:

Thank you for your recent audit review of the Adams County Community Development Block Grant program, as well as the exit interview conducted on Friday, September 4, 2009. In response to the draft audit report and on behalf of Adams County, we concur with the findings within the report and have no requested revisions. We look forward to working with the HUD Regional Office of Community Planning and Development as we move forward with our improvement plan.

Respectfully,

*Brian Kenna*

**Brian P. Kenna**  
**Deputy Director - Operations**  
**Division Director - Finance and Supportive Services**  
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