



Issue Date	September 30, 2010
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Audit Report Number	2010-AO-1007
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TO: Scott G. Davis, Director, Disaster Recovery and Special Issues Division, DGBD

FROM: *Tracey Carney*  
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11AGA

SUBJECT: The State of Alabama, Montgomery, AL, Generally Ensured Mobile Administered  
Its Hurricane Katrina Community Development Block Grant Disaster Funds  
Program in Accordance With HUD Requirements

## **HIGHLIGHTS**

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

We audited the State of Alabama, Department of Economic and Community Affairs' (State), Hurricane Katrina Community Development Block Grant Disaster Funds program (program), administered by the State's subrecipient, Mobile County Commission (Mobile). Our objective was to determine whether the State and Mobile administered the program in accordance with the requirements of the State's grant agreements (agreements). We initiated the audit as part of the Office of Inspector General (OIG) Gulf Coast Region's audit plan and examination of activities related to Gulf Coast hurricane disaster relief efforts.

### **What We Found**

In general, Mobile, as the State's subrecipient, met the requirements of its agreements when it usually ensured that program disbursements (1) were adequately supported and expended for only eligible expenses and (2) were not used for the same purpose as financial assistance provided by other sources.

## **What We Recommend**

Since the State ensured that Mobile properly administered its program in accordance with the requirements of its grant agreements, we did not recommend corrective action.

## **Auditee's Response**

We provided our review results and supporting schedules to the Director of HUD's Disaster Recovery and Special Issues Division and the State's director during the audit. We also provided our discussion draft audit report to the State's director and HUD's staff on September 16, 2010. On September 21, 2010, the State requested not to have an exit conference.

We asked the State to provide comments on our discussion draft audit report by September 25, 2010. The State notified us on September 27, 2010, that it would not be providing written comments.

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## **BACKGROUND AND OBJECTIVE**

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Between December 2005 and November 2007, Congress approved a total of \$19.7 billion in supplemental Community Development Block Grant (CDBG) disaster recovery assistance funds for Gulf Coast hurricane relief. Of that amount, the U.S. Department of Housing and Urban Development (HUD) awarded \$95.6 million to the State of Alabama for its recovery efforts. The State of Alabama, in conjunction with the Alabama Department of Economic and Community Affairs (State), develops action plans outlining the programs and methods used to administer the \$95.6 million in supplemental CDBG funds. In Alabama, the State is HUD's principal grantee and the entity primarily responsible for the \$95.6 million in allocated disaster funds. Therefore, the State is responsible for administering and monitoring the CDBG disaster-related programs generated from the HUD allocations.

HUD allowed the State to execute agreements with subrecipients to aid in administering the disaster programs. However, HUD required both the State and its subrecipients to follow all applicable HUD rules and regulations. The State entered into three grant agreements (agreements) with the Mobile County Commission (Mobile) local government, effective June 27, 2006, April 20, 2007 and August 15, 2007, and allocated \$23.7 million for Mobile to administer the Hurricane Katrina CDBG Disaster Funds program (program). Under the agreement, Mobile serves as the State's subrecipient and was to comply and accept responsibility for compliance by any public or private nonprofit entity, local development corporation, or small business investment corporation carrying out grant activity on behalf of Mobile with the terms and conditions of the agreement, applicable laws, regulations, and all requirements of the State or HUD pertaining to the assistance provided.

Mobile contracted with Roth, McHugh & Associates, LLC, to serve as the program administrator to assist in its efforts to administer its disaster recovery fund projects. Of the \$23.7 million awarded, Mobile budgeted \$19.6 million to housing assistance, \$3.2 million to the Grand Bay School renovation project, \$870,677 to the Coastal Response Center, and \$55,380 to debris removal.

One of Mobile's major projects was the Housing Assistance Program (HAP), which was created for the purpose of providing financial assistance to qualified homeowners who occupied residential units in Mobile County on August 29, 2005. The goal of HAP was to provide adequate housing for the affected households through a variety of housing assistance elements, which included but were not limited to housing rehabilitation, house elevation, onsite sewage treatment and disposal, new modular home construction/placement, and new replacement manufactured home construction/placement.

To participate in HAP, an eligible applicant was required to provide documentation to Mobile's program administrator to support that the home was the applicant's primary residence on August 29, 2005, and that the home was damaged by Hurricane Katrina. Mobile's program administrator precertified rehabilitation contractors to participate in HAP. The housing applicant was required to enter into a contract with a precertified contractor for the purpose of rehabilitating the applicant's home in accordance with the relevant activity determination of costs as determined by Mobile's housing rehabilitation specialist.

As of April 30, 2010, Mobile had spent approximately \$21 million (91 percent) of its program funds. Our objective was to determine whether the State and Mobile administered the program in accordance with the requirements of its agreements, to include determining whether (1) Mobile ensured that its payment requests were adequately supported and expended for only eligible expenses and (2) the State's and Mobile's procedures and controls prevented duplication of benefits.

## RESULTS OF AUDIT

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### Mobile, as the State's Subrecipient, Generally Administered Its Program in Accordance with HUD Requirements

Mobile generally ensured that its program was administered in accordance with HUD requirements. Specifically, it maintained records to support (1) the eligibility of reimbursed costs, and (2) program participants did not receive a duplication of benefits under the program.

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#### **Program Expenditures Were Eligible and Supported with Adequate Documentation**

As HUD's grantee, the State is responsible for administering and monitoring its disaster-related programs. To aid in its efforts, the State executed agreements with Mobile. According to the agreements, the State required Mobile to comply with all applicable Federal and State laws, executive orders, and regulations in administering funds provided under the agreements. As part of that compliance, Mobile was required to

- Administer the program in conformance with Office of Management and Budget (OMB) Circular A-87 and
- Maintain records that adequately identify the source and application of funds for grant-supported activities as required in the State's financial management policies and procedures.

Although the State had executed agreements with Mobile, HUD expected the State to ensure the overall compliance of the program.

As of April 30, 2010, Mobile had submitted to the State 65 payment requests under its program totaling nearly \$21 million. During our review, we determined 14 of the requests included costs that were unsupported because the files were missing documentation to support eligibility. The State obtained new or original documentation for all 14 payment requests after we notified it of the missing or incomplete documents during the audit.

## **Housing Applicants Did Not Receive a Duplicate Benefit under the Program**

According to the Robert T. Stafford Disaster Assistance and Emergency Relief Act, Title 42, Chapter 68, Section 5155, the State is responsible for ensuring that any program providing financial assistance to persons, business concerns, or other entities suffering losses as a result of a major disaster or emergency shall ensure that no such person, business concern, or other entity will receive such assistance with respect to any part of such loss for which he has received financial assistance under any other program or from insurance or any other source.

On February 23, 2007, HUD provided guidance to the State that operating procedures should be implemented for the program to describe how to deal with duplication of benefits. This guidance was provided to Mobile by the State on February 26, 2007. In this guidance, HUD informed the State that Federal Emergency Management Agency (FEMA) proceeds and Small Business Administration (SBA) loans must count against duplication of benefits unless there was acceptable evidence such as receipts, physical examinations, or affidavits indicating that the funds were used for housing costs that were not the same as those for which the grants were awarded under the program. For example, acceptable evidence would determine whether a homeowner used the FEMA proceeds and/or SBA loan to

- Purchase a generator,
- Pay for temporary housing while the damaged home was uninhabitable,
- Tear out moldy sheetrock, and
- Secure the property while it waited for rehabilitation.

Of the 284 payments disbursed to contractors for housing repairs and new construction on behalf of housing applicants, Mobile did not have adequate documentation to support that four housing applicants did not receive duplicate benefits. The State obtained new or original documentation for all four housing applicants after we notified it of the missing or incomplete documents during the audit.

## **Conclusion**

The State generally administered its program in accordance with HUD requirements.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we

- Obtained and reviewed HUD's agreements with the State and the State's agreements with Mobile; the State's HUD-accepted Hurricane Katrina action plan and modification; and Mobile's disaster recovery fund applications, letters of conditional commitments, budgets, and implementation schedules;
- Obtained and reviewed applicable laws, regulations, and other HUD program requirements and guidance relating to the program;
- Obtained and reviewed the State's and Mobile's written policies and procedures;
- Obtained and reviewed HUD's monitoring report and risk assessment;
- Interviewed HUD, State, and Mobile officials and staff.
- Obtained, reviewed, and analyzed the State's disbursement universe of \$20.9 million as of April 30, 2010, for Mobile.

We conducted our audit from January through August 2010 at our office in Jackson, MS; the State's office in Montgomery, AL; Mobile's office in Mobile, AL; and Roth, McHugh & Associates' office in Montgomery, AL. Our audit period was from April 1, 2006, through April 30, 2010.

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 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 to ensure its subrecipient follow applicable laws and regulations with respect to maintenance of records to reasonably ensure that disbursements were adequately supported and expended for only eligible expenses.
- Controls to ensure its subrecipient follow applicable laws and regulations with respect to maintenance of records and duplication of benefits to reasonably ensure that housing applicants would not receive a duplicate benefit under the program.

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.

## No Significant Deficiencies

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 on the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the State's and Mobile's internal control.