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TO: Scott G. Davis, Director, Disaster Recovery and Special Issues Division, DGBD

FROM: *Tracey Carney*
Tracey Carney, Acting Regional Inspector General for Audit, New Orleans Region,
11AGA

SUBJECT: The State of Alabama, Montgomery, AL, Generally Ensured That the City of
Bayou La Batre Properly Administered Its Hurricane Katrina Community
Development Block Grant Disaster Funds Program

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, the City of Bayou La Batre (Bayou La Batre). Our objective was to determine whether the State and Bayou La Batre administered the program in accordance with the requirements of their grant 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, the State and Bayou La Batre properly administered the program by adequately documenting the housing applicants' use of financial assistance provided by other sources, ensuring that housing applicants did not receive a duplicate benefit. The State also ensured that Bayou La Batre adequately supported and expended program funds only for eligible costs.

What We Recommend

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

Auditee's Response

We asked the State to provide comments on our discussion draft audit report by September 28, 2010. The State notified us on September 27, 2010, that it would not be providing written comments. On September 29, 2010, the State requested not to have an exit conference.

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BACKGROUND AND OBJECTIVE

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 principle 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 two grant agreements (agreements) with the City of Bayou La Batre (Bayou La Batre) local government, effective June 27, 2006, and August 15, 2007, and allocated \$37.6 million for Bayou La Batre to administer the Hurricane Katrina Community Development Block Grant Disaster Funds program (program). Under the agreements, Bayou La Batre 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 Bayou La Batre with the terms and conditions of the agreement, applicable laws, regulations, and all requirements of the State or HUD pertaining to the assistance provided.

Bayou La Batre contracted with Galbraith & Associates, LLC, to serve as the program administrator to assist in its efforts to administer its disaster recovery fund projects. Of the \$37.6 million awarded, Bayou La Batre budgeted \$2.4 million for infrastructure, \$2.1 million for water improvements, \$23.3 million for sewer improvements, \$7.3 for housing improvements, \$1.7 million for clearance and demolition, \$416,509 for debris removal, and \$382,117 for acquisition. As of April 30, 2010, Bayou La Batre had spent approximately \$21.6 million (65 percent) of its program funds.

Our objective was to determine whether the State and Bayou La Batre administered the program in accordance with the requirements of their agreements to include determining whether (1) the State's and Bayou La Batre's procedures and controls prevented duplication of benefits and (2) Bayou La Batre ensured that its payment requests were adequately supported and expended only for eligible costs.

RESULTS OF AUDIT

In general, the State and Bayou La Batre properly administered the program by adequately documenting the housing applicants' use of financial assistance provided by other sources, ensuring that housing applicants did not receive a duplicate benefit. The State also ensured that Bayou La Batre adequately supported and expended program funds only for eligible costs. Therefore, the report contains no findings, and no further action is necessary.

SCOPE AND METHODOLOGY

We conducted our audit from June through September 2010 at our office in Jackson, MS; the State's office in Montgomery, AL; Bayou La Batre's office in Bayou La Batre, AL; and Galbraith & Associates' office in Mobile, AL. Our audit period was April 1, 2006, through April 30, 2010. To accomplish our objective, we

- Obtained and reviewed HUD's agreements with the State and the State's agreements with Bayou La Batre; the State's HUD-accepted Hurricane Katrina action plan and modification; and Bayou La Batre'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 Bayou La Batre's written policies and procedures;
- Obtained and reviewed HUD's monitoring report and risk assessment;
- Interviewed HUD, State, and Bayou La Batre officials and staff;
- Obtained and reviewed hardcopy and electronic Federal Emergency Management Agency proceeds and Small Business Administration loan information and hardcopy insurance proceeds; and
- Obtained, reviewed, and analyzed the State's disbursement universe of \$21.6 million disbursed to Bayou La Batre as of 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

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:

- Controls to ensure that the State's subrecipient follows applicable laws and regulations with respect to maintenance of records and duplication of benefits to reasonably ensure that housing applicants do not receive a duplicate benefit under the program.
- Controls to ensure that the State's subrecipient follows applicable laws and regulations with respect to maintenance of records to reasonably ensure that disbursements are adequately supported and expended only for eligible costs.

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 Bayou La Batre's internal controls.