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| Issue Date | September 7, 2011 |
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| Audit Report Number | 2011-BO-1010 |
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TO: Robert D. Shumeyko, Director, Community Planning and Development, 1ADM1

//Signed//

FROM: John A. Dvorak, Regional Inspector General for Audit, Region 1, 1AGA

SUBJECT: City of Brockton, MA, Did Not Implement an Adequate Cost Allocation Plan for Administrative Expenses and Paid Unreasonable Costs for Its Fiscal Year 2010 Community Development Block Grant Audit

## **HIGHLIGHTS**

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

We reviewed the administration expenses charged to the City of Brockton's Community Development Block Grant in response to a complaint alleging that the City was charging the Community Development Block Grant program for City expenses.

The objectives of our review were to determine whether the City (1) properly accounted for and reported its planning and administrative expenses for its Community Development Block Grant and (2) prepared accurate consolidated annual performance and evaluation reports that were adequately supported by operational results.

### **What We Found**

The City generally accounted for expenses and did not charge the Community Development Block Grant program for nonprogram expenses. However, the City's subcontractors did not establish and implement an adequate cost allocation plan for salaries and administrative expenses, and one of its subcontractors paid unreasonable costs for its fiscal year 2010 audit. The City and its subcontractors

prepared consolidated annual performance and evaluation reports that were supported by operational results.

### **What We Recommend**

For finding 1, we recommend that HUD require the City and its subcontractor, the Brockton Redevelopment Authority, to develop a formal policy to address the allocation of salaries and all other administrative costs, obtain HUD approval of its allocation plan, adapt its financial policies to provide for regular updates of the allocation plan and train key staff.

For finding 2, we recommend that HUD (1) ensure that the City and its administrator, Building a Better Brockton honor their commitment not to charge the \$32,500 paid to the auditor for the 2010 annual financial statements to the Community Development Block Grant program and (2) require the City and the Brockton Redevelopment Authority to obtain a minimum of three price or rate quotations for the procurement of an independent public auditor for the subcontractor's annual audit for the fiscal year ending June 30, 2011; perform a price comparison of all price or rate quotations obtained; and select the best applicant to conduct the annual audit of the fiscal year ending June 30, 2011.

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 City a draft report on August 9, 2011, and held an exit conference with officials on August 18, 2011. The City provided written comments to finding 2 on August 17, 2011 and August 24, 2011; generally agreed with our findings, but disagreed with our conclusion that the cost paid was unreasonable. However, the City has agreed to take corrective actions that should eliminate the conditions noted in this report. The Brockton Redevelopment Authority provided written comments to finding 1 on August 21, 2011; agreed with our findings and our recommendations, and has initiated corrective action that should eliminate the conditions noted in this report.

The complete text of the both entities' responses, along with our evaluation of those responses, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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Congress provides funding through the Community Development Block Grant<sup>1</sup> on a formula basis to cities, States, and counties to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons. The U.S. Department of Housing and Urban Development (HUD) awards grants to cities, States, and counties to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. Each community develops its own programs and funding priorities. However, communities must prioritize activities which benefit low- and moderate income persons. A community may also carry out activities which aid in the prevention or elimination of slums or blight. Community Development Block Grant funds may not be used for activities which do not meet these broad national objectives.

Community Development Block Grant funds may be used for activities which include but are not limited to

- Acquisition of real property;
- Relocation and demolition;
- Rehabilitation of residential and nonresidential structures;
- Construction of public facilities and improvements, such as water and sewer facilities, streets, neighborhood centers, and the conversion of school buildings for eligible purposes;
- Public services within certain limits;
- Activities relating to energy conservation and renewable energy resources;
- Provision of assistance to profit-motivated businesses to carry out economic development and job creation or retention activities; and
- Planning and administration within certain limits.

In addition to receiving Community Development Block Grants, the City of Brockton received funds under the Community Development Block Grant-R<sup>2</sup> program, with reporting requirements in addition to and separate from those of the Community Development Block Grant program.

The City received more than \$1.5 million in 2009 Community Development Block Grant funds, more than \$1.6 million in 2010 Community Development Block Grant funds, and \$398,596 in Community Development Block Grant-R funds. Unlike the Community Development Block

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<sup>1</sup> Title 1 of the Housing and Community Development Act of 1974, Public Law 93-383, as amended, 42 U.S.C. (United States Code)-5301 et seq, provides authorization for the Community Development Block Grant.

<sup>2</sup> Public Law 111 - 5 - American Recovery and Reinvestment Act of 2009 provides authorization for the Community Development Block Grant-R program.

Grant program, the Community Development Block Grant-R program is a one-time award. The City outsources the administration of its community development programs. For the fiscal year ending June 30, 2009, the City hired Building a Better Brockton, a nonprofit, to administer its Community Development Block Grant, Homelessness Prevention and Rapid Re-Housing Program, Neighborhood Stabilization Program, and Supportive Housing Program. In November 2009, the City elected a new mayor. After evaluating Building a Better Brockton, the mayor decided to create the Brockton Redevelopment Authority, a governmental agency, which began operations in the fiscal year July 1, 2010, to June 30, 2011, and administered the City's Community Development Block Grant, Homelessness Prevention and Rapid Re-Housing Program, and Neighborhood Stabilization Program.

In 2009, OIG conducted a capacity review of the operations of the City's subcontractor, Building a Better Brockton, Inc., which had responsibility for administering the City's Neighborhood Stabilization Program. The objective of the audit was to determine whether the City and its recipient had the capacity to effectively and efficiently administer its Neighborhood Stabilization Program under the provisions of the Housing and Economic Recovery Act of 2008 and the American Recovery and Reinvestment Act of 2009. That audit, published September 29, 2009, determined that the subcontractor did not have the capacity to effectively and efficiently administer its Neighborhood Stabilization Program. Specifically, the subcontractor lacked adequate internal controls over the areas of financial reporting and procurement and adequate staffing to administer the program effectively. In addition, the report found potential conflict-of-interest issues among the recipient, its board members, and several of the subrecipients that would receive Neighborhood Stabilization Program funding. The report identified concerns about the subcontractor's ability to administer potential Neighborhood Stabilization Program-2 funding until it could satisfactorily address and demonstrate adequate controls over the areas of financial reporting, procurement, and staffing and the conflicts of interest. After that audit, HUD decided not to award Neighborhood Stabilization Program-2 funds to the City, a new mayor was elected, and the new mayor hired a different subcontractor, the Brockton Redevelopment Authority, to administer its community development funds. HUD, the City, and the City's current subcontractor, the Brockton Redevelopment Authority, have worked together to close most of the recommendations. In addition, HUD continues to providing technical assistance to the City and its subcontractor.

The objectives of our review were to determine whether the City (1) properly accounted for and reported its planning and administrative expenses for its Community Development Block Grant and (2) prepared accurate consolidated annual performance and evaluation reports that were adequately supported by operational results.

## RESULTS OF AUDIT

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### Finding 1: The City's Subcontractors Did Not Establish Adequate Cost Allocation Plans for Salaries and Administrative Expenses

The City's subcontractors, Building a Better Brockton and the Brockton Redevelopment Authority, had established separate cost allocation plans to address administrative salaries. However, neither plan addressed administrative expenses other than salaries. This condition occurred because neither entity was fully aware of the requirements for cost allocations. As a result, the cost allocation plans did not properly address both salaries and administrative expenses.

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#### Regulations Require a Cost Allocation Plan

The regulations governing the Community Development Block Grant require grantees and subcontractors to develop a cost allocation plan for all Federal programs administered. Regulations governing the Community Development Block Grant are in 24 CFR (Code of Federal Regulations) Part 570, Community Development Block Grant.<sup>3</sup> There are separate regulations for units of government and nonprofit entities. These regulations are written in a generalized style because they apply to many government grants.

The regulations for nonprofits at 2 CFR Part 230 define allocable cost and explain how to allocate indirect costs. Any cost allocable to a particular program may not be shifted to other Federal programs to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award.

The regulations for governmental entities at 2 CFR Part 225 identify the factors affecting the allowability and allocability of costs. Under basic guidelines, any cost allocable to a particular Federal award or cost objective under these regulations may not be charged to other Federal awards to overcome funding deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

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<sup>3</sup> In 24 CFR 570.502, Applicability of Uniform Administrative Requirements, HUD requires nonprofits to follow Office of Management and Budget (OMB) Circular No A-122, "Cost Principles for Nonprofit Organizations," codified at 2 CFR Part 230, while requiring government agencies to follow Circular No. A-87, "Cost Principles for State, Local, and Indian Tribal Governments," codified at 2 CFR Part 225. Building a Better Brockton is a nonprofit, while the Brockton Redevelopment Authority is a governmental entity.

The requirements under both regulations are similar. Essentially, an entity (a nonprofit or a unit of government) must develop an allocation plan that

- Defines a basis for allocating costs. This basis is the unit of measure used to allocate expenses to a particular program and must be reasonable for all of the entities' programs.
- Allocates costs to the program benefitting from the costs.
- Provides consistent treatment between Federal and non-Federal programs and provides consistent treatment among Federal programs from different departments or agencies.
- Does not include costs unallowed under the funding program or grant.
- Does not include capital expenditures.
- Provides opportunities to update the allocation plan when the occasion warrants. Occasions that warrant an update are the addition of new grants, the termination of existing grants, the reorganization of the entity, the addition of new staff, the departure of existing staff, or other matters that affect the basis or the beneficial relationship.

### **Building a Better Brockton's Cost Allocation Plan**

Building a Better Brockton established an elaborate cost allocation plan to address salaries only. It directly charged salaries to the programs that benefitted from those salaries. However, Building a Better Brockton did not charge payroll consistently across programs. The inconsistency was noticed by auditors during the annual financial audit and brought to the attention of the Brockton Redevelopment Authority and HUD. Building a Better Brockton charged the date billed rather than the date incurred for both payroll costs and program costs. The annual financial audit report was completed on January 28, 2011, but HUD and the Brockton Redevelopment Authority began working on the issue when the auditors first brought it to their attention in October 2010. In October 2010, Building a Better Brockton no longer worked with HUD funding. The scope of the error was not limited to the Community Development Block Grant but also systemically affected all programs administered by Building a Better Brockton.

## **Brockton Redevelopment Authority's Cost Allocation Plan**

The Brockton Redevelopment Authority used a daily charge method. All staff maintained time sheets daily to ensure accuracy and timeliness of record keeping. For payroll draws, the director of finance and compliance requested salary advances from the City at the end of the month. Salary and benefits for the executive director and director of finance and the Community Development Block Grant program manager were drawn from Community Development Block Grant administration. Salary and benefits for the director of housing were drawn from Neighborhood Stabilization Program administration. All payroll expenses (processing fees and employer share of taxes) were drawn from Community Development Block Grant administration.

At the end of each quarter, the director of finance and compliance reconciled completed time sheets and made appropriate adjustments for time spent on other programs, such as the Homelessness Prevention and Rapid Re-Housing Program, etc., or time spent on program delivery rather than administration. The reconciliation was submitted to the City auditor, and a request for a reconciliation adjustment was made when appropriate. This plan was created to ensure ease of administration and periodic reconciliation to properly allocate staff salaries and payroll expense. The Brockton Redevelopment Authority consistently used its plan.

## **The Cost Allocation Plans Addressed Only Salaries**

While both plans addressed the administrative expenses of salaries, neither plan addressed administrative expenses other than salaries such as rent, photocopying, annual financial audit, advertising, telephone services, consulting services, and professional fees. These expenditures were charged completely to the Community Development Block Grant, although they benefitted all of the programs.

## **Brockton Redevelopment Authority Inherited Programs from Building a Better Brockton**

The Brockton Redevelopment Authority inherited programs from Building a Better Brockton, including the Community Development Block Grant,

Community Development Block Grant-R, Homelessness Prevention and Rapid Re-Housing Program, and Neighborhood Stabilization Program. Some of these programs had exhausted their planning and administrative funding before the change in management, while other programs had not charged any funds to planning and administration. The Brockton Redevelopment Authority tried to correct this situation using a journal entry to exhaust the remaining planning and administrative expense in the programs that were not charged previously. The journal entry did not reallocate expenditures or restate prior years' financial data; instead, it acted as a lump-sum withdrawal of funds not previously expended. The Brockton Redevelopment Authority shared the journal entry documentation with HUD when it made the adjustment, and no further action was taken by HUD. The Brockton Redevelopment Authority managed four programs—the Community Development Block Grant, Community Development Block Grant-R, Homelessness Prevention and Rapid Re-Housing Program, and Neighborhood Stabilization Program—all of which were funded by HUD. It had no programs that were not funded by HUD. Additionally, Community Development Block Grant-R is a one-time award, and Congress is not renewing the Homelessness Prevention and Rapid Re-Housing Program or the Neighborhood Stabilization Program.

### **Neither Entity Complied Fully with Cost Regulations**

Neither entity complied fully with the cost allocation regulations or addressed the allocation of nonsalary expenses. Building a Better Brockton developed its cost allocation plan to address a prior Office of Inspector General (OIG) audit<sup>4</sup> of the City's Neighborhood Stabilization Program, which pointed out the need for stronger financial controls. At the time of this audit in September 2010, it had not yet completed 1 year of operations, and the cost allocation plan developed directly charged salaries to the programs that benefitted from those salaries. With the change in City administration in November 2009, the Brockton Redevelopment Authority<sup>5</sup> was created in 2010 to handle the City's community development programs, replacing Building a Better Brockton. The Brockton Redevelopment Authority's allocation plan was created to allocate staff salaries and payroll expense to the program benefited.

### **Subcontractor is Developing New Cost Allocation Plan**

The Brockton Redevelopment Authority is working with HUD to develop and implement a cost allocation plan to address both salaries and other administrative expenses. The implementation of a proper cost allocation plan will assign costs to

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<sup>4</sup> The prior audit is discussed in the section Background of this report.

<sup>5</sup> From its inception in July 2010 to March 2011, one person fulfilled both the role of executive director and director of financial and regulatory compliance.

the correct program benefitting from those costs and will help Brockton Redevelopment Authority to better operate its programs.

## Conclusion

Building a Better Brockton and the Brockton Redevelopment Authority established separate cost allocation plans to address administrative salaries without addressing administrative expenses other than salaries. This situation is attributable to a lack of knowledge about proper cost allocation plans. As a result, the cost allocation plan did not properly address both salaries and administrative expenses. Federal regulations specifically state that any cost allocable to a particular program may not be shifted to other Federal programs to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award. Like many other non profits, the Brockton Redevelopment Authority used all of its available funds. Adoption and use of a formal policy can help Brockton Redevelopment Authority prevent cost overruns by planning for all administrative expenditures. Without a formal allocation plan, any entity may shift costs from one program to another to overcome funding deficiencies.

## Recommendations

We recommend that the City and the Brockton Redevelopment Authority

- 1A. Develop and adopt a formal policy to address both the allocation of salaries and all other administrative costs. This policy needs a defined basis to allocate costs among all of the benefitting programs.
- 1B. Obtain specific approval from HUD's Office of Community Planning and Development for its allocation plan.
- 1C. Adapt its financial policies to provide for regular updates of the allocation plan concurrent with the awarding of new funding or the closure of current grants or programs.
- 1D. Train key staff in cost allocation principles required by Federal regulations.

## RESULTS OF AUDIT

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### Finding 2: The City's Subcontractor Paid Unreasonable Costs for Its Fiscal Year 2010 Audit

The City's subcontractor could not provide evidence that it conducted a cost or price comparison for its annual financial audit. A cost and price comparison helps entities ensure that they get the best price available. The subcontractor used the same auditor as its affiliate. The affiliate paid \$9,000 for its audit, while the subcontractor paid the same audit firm \$32,500 for the same fiscal year. As a result, HUD funds were used to pay \$23,500 in unreasonable expenses.

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#### **Nonprofits Must Conduct a Cost or Price Analysis for Every Procurement**

The Community Development Block Grant program is governed by 24 CFR Part 570, which has different regulations for governmental agencies and nonprofits. As a nonprofit, Building a Better Brockton must comply with 2 CFR Part 215.<sup>6</sup> In 2 CFR 215.45, Cost and Price Analysis, the standards for nonprofits require that some form of cost or price analysis be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted and market prices, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability. Building a Better Brockton did not provide evidence that it conducted a price analysis and obtained the best price for its audit.

#### **Building a Better Brockton Used an Affiliate's Auditor**

The nonprofit, Building a Better Brockton, procured its independent public auditor through its affiliate, Brockton 21st Century. Brockton 21st Century had an established relationship with an independent public auditor, having hired it to audit Brockton 21st Century for several years. Building a Better Brockton and Brockton 21st Century were affiliates due to common boards, shared office space,

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<sup>6</sup> In 24 CFR 570 .502, Applicability of Uniform Administrative Requirements, HUD requires nonprofits to follow OMB Circular No A-110 "Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," codified at 2 CFR 215. Building a Better Brockton is a nonprofit.

and shared employees. When its management determined that Building a Better Brockton also needed an audit, it contacted audit firms including the independent public auditor used by Brockton 21st Century. According to our interviews, there were no longer records identifying which board members contacted which entities or how the price comparison was conducted. This matter came to our attention during our survey due to the high cost of the independent public auditor contract.

### **The Community Development Block Grant Paid \$32,500 for an Audit while the Affiliate Paid \$9,000**

The Community Development Block Grant program paid \$34,000, consisting of \$32,500 for the annual financial audit and \$1,500 for annual taxes, to a local audit firm. Building a Better Brockton provided the bills and contracts showing the amount of the contract. These documents also identified how much the affiliate, Brockton 21st Century, paid to the same audit firm for the affiliates' audited financial statements for the same year. While Building a Better Brockton paid its auditor \$32,500, Brockton 21st Century only paid \$9,000 to the same entity for audited financial statements for the same fiscal year. Building a Better Brockton attributed the higher price to exposure from the previous OIG audit of the Neighborhood Stabilization Program.<sup>7</sup>

### **City disagrees; but will not charge the Block Grant**

The city and its subcontractor, Building a Better Brockton agreed that they did not have supporting documentation showing multiple sources were solicited and a cost/price analysis was performed for the audit services. However, they disagreed that the cost of the audit was unreasonable. In addition, they agreed not to charge the Community Development Block Grant for these expenses. Based on this commitment not to charge the program, we have amended our recommendations

### **Conclusion**

The absence of a cost and price comparison does not help any entity ensure the best price available. The subcontractor used the same audit firm as its affiliate. The affiliate paid only \$9,000 for its audit, while the subcontractor paid the same audit firm \$32,500 for the same fiscal year. As a result, the City overpaid for the annual financial audit.

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<sup>7</sup> The prior audit is discussed in the section Background of this report.

## Recommendations

We recommend that HUD ensure that the City and its administrator, Building a Better Brockton

- 2A. Honor their commitment not to charge the \$32,500 paid to the auditor for the 2010 annual financial statements to the Community Development Block Grant program resulting in funds put to better use (costs not incurred).

We recommend that HUD require the City and its administrator, Brockton Redevelopment Authority to

- 2B. Obtain a minimum of three price or rate quotations for its future procurement of an independent public auditor for its annual audit of the fiscal year ending June 30, 2011, perform a cost and price analysis, and select the best applicant.

## SCOPE AND METHODOLOGY

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We conducted the audit from April to June 2011. Our fieldwork was conducted at the Brockton Redevelopment Authority's office located at 45 School Street, Brockton, MA, and City Hall located at 60 School Street Brockton, MA. Our audit covered the period July 2009 to June 2011 and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Reviewed the legislation, regulations, handbooks, and notices on the Community Development Block Grant program and the Community Development Block Grant-R program.
- Identified the awards of HUD funds to the City.
- Interviewed the responsible HUD staff members to determine what concerns they had about the City's program.
- Reviewed HUD reports on the City, focusing on its goals and expenditures.
- Obtained and reviewed annual financial audits for the previous 2 years to identify problem areas and any corrective actions taken.
- Reviewed the organizational structure of the City and its key staff.
- Identified the organizational structure of the City's subcontractors, the Brockton Redevelopment Authority and Building a Better Brockton.
- Reviewed media articles about the City and the Brockton Redevelopment Authority.
- Reviewed the 5-year plan and the goals of the plan.
- Reviewed the operational controls, the financial controls and the controls over the computers systems used for planning and administrative expenses for its Community Development Block Grant and preparing accurate reports that were adequately supported by operational results. To assess the data, we examined access to systems, back up of data and controls over the relevance and reliability of information. We did not rely solely on the computer systems; instead we traced all data to third party documentation.
- Examined the nature, timing, and extent of accomplishments as identified in the consolidated annual performance and evaluation reports and annual updates and traced a random sample of accomplishments from the reports to third-party supporting documentation. We used a nonstatistical sample because we wished to focus on Community Development Block Grant program accomplishments and the consolidated annual performance and evaluation report includes all programs. We examined 3 accomplishments from a universe of 15 accomplishments for the program. The sample was drawn randomly without bias for any program accomplishment.
- Obtained a listing of all expenditures categorized by type of expenditure. We then selected a sample of expenditures and tested expenditures for eligibility, proper evaluation, allocation (if applicable), and propriety. We used a nonstatistical, random sample of 7 of 20 categories. We selected our sample without conscious bias, that is, without any special reason for including or excluding items. This type of selection does not allow projection to the universe. We then traced all expenditures within these categories to third party-supporting documentation.
- Obtained and examined the cost allocation plan for the City.

- Selected a sample of payroll costs and traced payroll expenditures to job descriptions and the cost allocation plan. We used a nonstatistical sample of 3 timesheets from a universe of 52. We selected our sample without conscious bias, that is, without any special reason for including or excluding items. This type of selection does not allow projection to the universe. We then examined the connection between the job duties and work under the Community Development Block Grant program and traced reports forward to annual reports to the U.S. Department of Labor and Internal Revenue Service. We evaluated the reasonableness of salaries using data compiled by the U.S. Department of Labor on salary expenditures in the State of Massachusetts.
- Selected a sample of nonpayroll administrative costs and traced to supporting documentation and the cost allocation plan. We used a nonstatistical, of 7 of 20 categories. We selected our sample without conscious bias, that is, without any special reason for including or excluding items. This type of selection does not allow projection to the universe. For each expense in these categories, we examined the connection between the work performed and the work planned, evaluated whether the scope of work related to the Community Development Block Grant programs and the services performed would benefit the programs, and evaluated whether the prices paid for the services were reasonable and whether the City and its subcontractors maintained appropriate third-party documentation.
- Interviewed the City's chief financial officer about the transition from Building a Better Brockton to the Brockton Redevelopment Authority.
- Interviewed Brockton Redevelopment Authority staff about the status of the Brockton Redevelopment Authority as a legal entity and determined whether the Brockton Redevelopment Authority was a nonprofit or a governmental entity.
- Determined how Building a Better Brockton procured its annual financial audit and whether this procurement met applicable requirements.
- Obtained the engagement letter, determined staffing, and obtained billings and payments related to the audited financial statements and determined whether there were payments from both Building a Better Brockton and Brockton 21st Century.
- Determined how the Brockton Redevelopment Authority procured its independent public auditor and whether this procurement met applicable regulations.
- Determined the amount of overpayment and unreasonable cost.

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 objectives.

# 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 objectives:

- Controls over establishing and implementing the cost allocation plan,
- Controls over cost and price analysis for the audited financial statements,
- Controls over the payroll function, and
- Controls for reporting accomplishments.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The City's subcontractors did not establish and implement cost allocation plans for expenses other than salaries (see finding 1).

- Building a Better Brockton, subcontractor to the City, did not provide evidence that it conducted a cost and price analysis to obtain the best value for its annual financial audit (see finding 2).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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| Recommendation<br>number | Funds to be put<br>to better use <u>1/</u> |
|--------------------------|--|
| 2A                       | \$32,500                                   |

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. For this audit, this amount represents costs that will not be incurred by not charging the CDBG program \$32,500 paid from City funds for the 2010 audit. The City has agreed not to charge CDBG for the audit. (see appendix B)

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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Ref to OIG Evaluation

Auditee Comments

Comment 1

From: Marc Resnick  
[mailto:MResnick@brocktonredevelopmentauthority.com]  
Sent: Sunday, August 21, 2011 1:15 PM  
To: Schwartzberg, Cristine  
Cc: Condon John; Anne Marie Belrose  
Subject: Cost Allocation Plan

Hi Christine,  
Attached you will find the Cost Allocation Plan which was approved by the BRA Board and then submitted to HUD. We have received comments from HUD and we will make adjustments to the Plan and resubmit for approval once I return from vacation.  
Have a good week,  
Marc

Marc Resnick, AICP  
Director of Community Development  
Brockton Redevelopment Authority  
50 School Street  
Brockton, MA 02301

508-586-3887 - Office  
508-559-7582 - Fax

**Ref to OIG Evaluation**

**Auditee Comments**

August 17, 2011

TO: Robert D. Shumeyko  
Director, Community Planning and Development, IADM1

John A. Dvorak  
Regional Inspector General for Audit, Region 1 IAGA

FROM: John A. Condon,  
Chief Financial Officer, City of Brockton, and  
Chairman of the Board of Directors, Building a Better Brockton, Inc.

RE: Audit of City of Brockton, MA Administrative Expenses for FY2010 CDBG Grant  
(Audit Report Number 2011-BO – 10XX)

This memorandum will respond to the second of two findings of the subject audit, the report for which was issued in draft form on August 10, 2011. The CDBG program for the City of Brockton during almost all of the audit year of FY2010 was administered by Building a Better Brockton, Inc. (BBB). At the very end of the FY2010, that responsibility was transferred to the Brockton Redevelopment Authority (BRA). Subsequently, BBB has not administered any federal funds for the city; in fact, BBB is no longer active.

As the first audit finding involves the establishment and implementation of an adequate cost allocation plan, the BRA, which continues to serve as the administrative agent for the city for CDBG funding, will respond separately to that finding. I believe that the BRA's response will concur with the finding and that the BRA has actively worked with the local HUD officials to develop an acceptable plan.

**Comment 2**

With respect to the second finding, which involves the method by which the city and BBB procured the FY10 audit and the price paid for that audit, the city and BBB:

- (1.) Do not dispute that records do not exist to document that a formal competitive procurement occurred.
- (2.) Dispute that the price paid for the audit was unreasonable or that BBB overpaid for the audit.
- (3.) Dispute the recommendation that a portion of the audit fee paid be returned to the CDBG program from non-federal funds.

**Ref to OIG Evaluation**

**Auditee Comments**

-2-

With respect to the procurement methodology, I and other current BBB officers and board members cannot comment on the specific nature of the procurement of the services of the Sharkansky CPA firm. The former BBB Treasurer/member of the Board of Directors, who initially procured Sharkansky's services, and negotiated their continuation, is no longer with the BBB. I do not dispute that documentation of the procurement cannot be located in the files. However, I can offer the following background comments. The Sharkansky firm had served as auditor to the Brockton 21<sup>st</sup> Century Corporation (B21), a 501 C-6 entity and affiliate of BBB, with a shared board of directors, for many years. Sharkansky has a local practice with offices in Brockton. Sharkansky's staff members have familiarity and experience with Federal funding audits. When the former mayor determined to administer the city's Federal HUD funding through BBB, discussions were held with the city's outside auditors, KPMG Peat Marwick (KPMG), about the advisability of expanding KPMG's audit contract with the city to include BBB's activities, or to engage Sharkansky. After meetings between officials of BBB, city officials, and partners and staff of both KPMG and Sharkansky, it was decided that engaging the Sharkansky firm with billing rates which were lower than KPMG's, would be a cheaper and acceptable approach. In addition, the caliber of the Sharkansky firm's work in serving B21 was high and known to BBB, and it would continue to serve as auditor to B21.

**Comment 2**

With respect to the recommendation that the FY11 audit be procured after solicitation of price quotations, I believe that the BRA will comply with the recommendation that the best applicant will be selected. The best applicant will be evaluated after a comparison of both price and qualifications, including experience.

With respect to whether the price paid for the audit was reasonable or not and whether the city overpaid, I strongly disagree with the audit's conclusions. The city can document that the hours spent by the Sharkansky staff for the BBB audit far exceeded its budget. (See Attachment). Sharkansky expended more than \$61,000 for the BBB portion of the audit, but the amount charged was \$32,500. An additional \$1,500 was paid for tax filings. The costs of the portion of the audit of the Brockton 21<sup>st</sup> Century Corporation were consistent with both the billed amount to B21 and with the costs of prior audits of B21. That the BBB audit would be far more complex than that of the B21 was known in advance, but the Sharkansky firm certainly did not anticipate that it would write off nearly \$30 thousand of unbilled costs. The reason that the audit work was known in advance to be more difficult for BBB than B21 was that the nature of the B21 funding sources and activities to be accounted for were very straightforward and consistent from one year to the next. On the other hand BBB was a new entity. It had undertaken responsibility not only for CDBG funding, but also NSP, NSP2, and CDBG R. Its staff was new, and many were untrained in accounting. Moreover, in 2009, OIG had performed a capacity review which found that the BBB lacked adequate capacity, especially with respect to financial reporting, controls, procurement, and staffing. It also found potential conflicts of interest among board members. This rendered the FY10 audit more risky.

During the FY10 year, the BBB Executive Director resigned, as did a number of board members, including one who was a CPA who served as Treasurer. A Director of Finance and Compliance (DFC) was hired, but because of the resignation of the Executive Director, the new DFC also served as Acting Executive Director. Accordingly, the staffing, capacity, and financial expertise issues were not resolved, and the Sharkansky staff encountered a great deal of difficulty in completing the audit. That is the reason that \$27,647 was unbilled, but the payment of \$10,500 for B21 versus \$34,000 in total for BBB was hardly disproportionate to effort. I believe the opposite was true.

**OIG Evaluation of Auditee Comments**

**Ref to OIG Evaluation**

**Auditee Comments**

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Therefore, the recommendation that the city repay funds to the CDBG program is not consistent with a conclusion that \$34,000 was a reasonable price to pay for the hours expended on the BBB audit and tax assistance. **In addition, when the audit fee was subsequently paid in early 2011, no CDBG or Federal funds were drawn for the payment. Accordingly, even if HUD staff members reach the conclusion that the fee was unreasonable, a conclusion which I believe to be unwarranted, it does not follow that any funds should be repaid as no Federal Funds were used to pay the fee.**

JAC/amw

Attachments

XC: Linda M. Balzotti, Mayor  
Heidi Chuckran, City Auditor  
Mark Resnick, Executive Director, BRA  
Ray Leduc, Board member, BBB  
Pat Ciarmarelli, Board Member, BBB  
Chris Cooney, Board Member, BBB

**Ref to OIG Evaluation**

**Auditee Comments**

August 24, 2011

Ms. Cristine O'Rourke Schwartzberg  
U.S. Dept of HUD/OIG/Audit  
Thomas P. O'Neill Jr. Federal Building  
10 Causeway Street – Room 370  
Boston, MA 02222

Dear Cristine:

**Comment 2**

I am writing as promised to confirm the commitment which I made in the exit conference on August 18, 29011. The city has not drawn and will not draw on CDBG or any other federal funding in order to recover the FY 10 audit fee paid by Building A Better Brockton, Inc. Moreover, Building A Better Brockton, Inc. has not drawn, nor will the city permit it to draw, on CDBG or any other federal funding in order to recover its FY10 audit fee. As you know, I continue to maintain that the fee paid to the audit firm was reasonable and supported by the work performed, but I make this commitment in the interest of resolving the issue.

Best regards,

John A. Condon  
Chief Financial Officer, City of Brockton

JAC/amw

XC: Linda M. Balzotti, Mayor  
Heidi Chuckran, City Auditor  
Marc Resnick, BRA

### **OIG Evaluation of Auditee Comments**

- Comment 1** We appreciate that the Brockton Redevelopment Authority is working with HUD to develop a proper cost allocation plan. The implementation of a proper cost allocation plan will assign costs to the correct program benefitting from those costs and will help Brockton Redevelopment Authority to better operate its programs. While the Brockton Redevelopment Authority provided its draft cost allocation, we did not include the plan in our report because the plan contains personal identification information.
- Comment 2:** The city and its subcontractor, Building a Better Brockton disagree that the cost of the audit was unreasonable. However, the City agreed not to charge the Community Development Block Grant for these expenses. Based on this commitment not to charge the program, we amended recommendation 2A.

## Appendix C

### CRITERIA

#### **24 CFR 570.502, Applicability of Uniform Administrative Requirements**

- (a) Recipients and subrecipients that are governmental entities (including public agencies) shall comply with the requirements and standards of OMB [Office of Management and Budget] Circular No. A-87, “Cost Principles for State, Local, and Indian Tribal Governments”; OMB Circular A-128, “Audits of State and Local Governments” (implemented at 24 CFR part 44); and with the following sections of 24 CFR part 85 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” or the related CDBG provision, as specified in this paragraph:
- (1) Section 85.3, “Definitions”;
  - (2) Section 85.6, “Exceptions”;
  - (3) Section 85.12, “Special grant or subgrant conditions for ‘high-risk’ grantees”;
  - (4) Section 85.20, “Standards for financial management systems,” except paragraph (a);
  - (5) Section 85.21, “Payment,” except as modified by § 570.513;
  - (6) Section 85.22, “Allowable costs”;
  - (7) Section 85.26, “Non-federal audits”;
  - (8) Section 85.32, “Equipment,” except in all cases in which the equipment is sold, the proceeds shall be program income;
  - (9) Section 85.33, “Supplies”;
  - (10) Section 85.34, “Copyrights”;
  - (11) Section 85.35, “Subawards to debarred and suspended parties”;
  - (12) Section 85.36, “Procurement,” except paragraph (a);
  - (13) Section 85.37, “Subgrants”;
  - (14) Section 85.40, “Monitoring and reporting program performance,” except paragraphs (b) through (d) and paragraph (f);
  - (15) Section 85.41, “Financial reporting,” except paragraphs (a), (b), and (e);
  - (16) Section 85.42, “Retention and access requirements for records,” except that the period shall be four years;
  - (17) Section 85.43, “Enforcement”;
  - (18) Section 85.44, “Termination for convenience”;
  - (19) Section 85.51 “Later disallowances and adjustments” and
  - (20) Section 85.52, “Collection of amounts due.”

- (b) Subrecipients, except subrecipients that are governmental entities, shall comply with the requirements and standards of OMB Circular No. A-122, “Cost Principles for Non-profit Organizations,” or OMB Circular No. A-21, “Cost Principles for Educational Institutions,” as applicable, and OMB Circular A-133, “Audits of Institutions of Higher Education and Other Nonprofit Institutions” (as set forth in 24 CFR part 45). Audits shall be conducted annually. Such subrecipients shall also comply with the following provisions of the Uniform Administrative requirements of OMB Circular A-110 (implemented at 24 CFR part 84, “Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations”) or the related CDBG provision, as specified in this paragraph:
- (1) Subpart A—“General”;
  - (2) Subpart B—“Pre-Award Requirements,” except for § 84.12, “Forms for Applying for Federal Assistance”;
  - (3) Subpart C—“Post-Award Requirements,” except for:
    - (i) Section 84.22, “Payment Requirements.” Grantees shall follow the standards of §§ 85.20(b)(7) and 85.21 in making payments to subrecipients;
    - (ii) Section 84.23, “Cost Sharing and Matching”;
    - (iii) Section 84.24, “Program Income.” In lieu of § 84.24, CDBG subrecipients shall follow § 570.504; Section 84.25, “Revision of Budget and Program Plans”;
    - (iv) Section 84.32, “Real Property.” In lieu of § 84.32, CDBG subrecipients shall follow § 570.505;
    - (v) Section 84.34(g), “Equipment.” In lieu of the disposition provisions of § 84.34(g), the following applies:
      - (A) In all cases in which equipment is sold, the proceeds shall be program income (prorated to reflect the extent to which CDBG funds were used to acquire the equipment); and
      - (B) Equipment not needed by the subrecipient for CDBG activities shall be transferred to the recipient for the CDBG program or shall be retained after compensating the recipient;
    - (vi) Section 84.51 (b), (c), (d), (e), (f), (g), and (h), “Monitoring and Reporting Program Performance”; (viii) Section 84.52, “Financial Reporting”;
    - (vii) Section 84.53(b), “Retention and access requirements for records.” Section 84.53(b) applies with the following exceptions:
      - (A) The retention period referenced in § 84.53(b) pertaining to individual CDBG activities shall be four years; and

- (B) The retention period starts from the date of submission of the annual performance and evaluation report, as prescribed in 24 CFR 91.520, in which the specific activity is reported on for the final time rather than from the date of submission of the final expenditure report for the award; (x) Section 84.61, "Termination." In lieu of the provisions of § 84.61, CDBG subrecipients shall comply with § 570.503(b)(7); and (4) Subpart D—"After-the-Award Requirements," except for § 84.71, "Closeout Procedures."

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After the establishment of the Community Development Block Grant, these OMB circulars were added to the Code of Federal Regulations:

| Circular           | Location in the Code of Federal Regulations |
|--------------------|---|
| OMB Circular A-87  | 2 CFR Part 225                              |
| OMB Circular A-122 | 2 CFR Part 230                              |
| OMB Circular A-110 | 2 CFR Part 215                              |