
AUDIT REPORT



The City of Malden, Massachusetts, Working to Ensure Appropriate Use
of Community Development Block Grant and HOME Investment
Partnerships Program Administrative Funds

2006-BO-1003

January 23, 2006

OFFICE OF AUDIT, REGION 1
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TO: Robert Paquin, Director for the Office of Community Planning and Development, 1AD

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

SUBJECT: The City of Malden, Massachusetts, Working to Ensure Appropriate Use of Community Development Block Grant and HOME Investment Partnerships Program Administrative Funds

HIGHLIGHTS

What We Audited and Why

At the request of the Office of Community Planning and Development, we reviewed the City of Malden (City) and the Malden Redevelopment Authority (Authority) to determine whether Community Development Block Grant (Block Grant) and HOME Investment Partnerships Program (HOME Program) administrative funds were used in compliance with U.S Department of Housing and Urban Development (HUD) requirements.

What We Found

We found that the City and the Authority were working to strengthen internal controls to ensure compliance with HUD requirements. The City and Authority needed to strengthen the controls by ensuring that all job descriptions related duties to the Block Grant and HOME programs, and allocations of salaries and travel expenditures were proper and adequately supported. While some funds had

not been used in compliance with HUD requirements, the City and the Authority had commenced strengthening the controls, and these changes should ensure compliance. Additionally, the City and the Authority repaid \$14,766 that had not been used in compliance with the Block Grant.

What We Recommend

We did not identify any conditions that required us to recommend corrective action.

Auditee's Response

The report did not require a response from the auditee.

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BACKGROUND AND OBJECTIVES

The Office of Community Planning and Development requested a review of the City of Malden (City). Based on the request and discussions with the Office of Community Planning and Development, we initiated a review of administrative funds and expenditures for the City's Community Development Block Grant (Block Grant) and HOME Investment Partnerships Program (HOME program). The City selected the Malden Redevelopment Authority (Authority), a quasi-public corporation, to carry out the Block Grant and HOME program functions.

The U.S. Department of Housing and Urban Development (HUD) provided \$3,733,000 to the City for the Block Grant, of which the City spent \$688,699 on administration of the Block Grant. The City is the lead entity for the North Suburban Consortium, a participating jurisdiction for the HOME Program, which includes the contiguous communities of Arlington, Revere, Chelsea, Everett, Malden, and Medford. HUD provided \$5,964,997 to the North Suburban Consortium for the HOME Investment Partnerships Program.

The Office of Community Planning and Development conducted a comprehensive monitoring review of Block Grant and HOME Investment Partnerships Program funding in August and November 2004. The monitoring report identified a number of findings and concerns. Four of these findings were related to the City's and Authority's internal controls and record keeping associated with administrative expenditures. The Office of Community Planning and Development also concluded that the Authority allowed its board members to travel using Block Grant funds, which it questioned as ineligible. In addition, the Office of Community Planning and Development identified that the Authority funded retirement benefits. It requested an audit to determine whether the Authority used HUD funds for eligible administrative expenditures. The City and the Authority cooperated with our office to provide the necessary documentation.

The objective of our audit was to address concerns about whether Block Grant and HOME Investment Partnerships Program administrative funds were used in compliance with HUD requirements. Specifically, we examined job descriptions, salary allocation, and travel expenditures.

RESULTS OF AUDIT

Finding 1: The City and the Authority are Strengthening Internal Controls to Ensure all Block Grant and HOME Funds are Used Appropriately

The Authority did not always adequately support the administrative costs charged to the Block Grant and HOME programs, or use the administrative funds in compliance with HUD requirements. These deficiencies occurred because internal controls relating to travel and salaries did not ensure costs were always supported or eligible. However, the City and the Authority have been implementing new controls that should prevent recurrence. Additionally, the City and the Authority reimbursed the Block Grant \$14,766 for the inappropriate non-program expenditures.

Funds not Always Supported or Used in Compliance

The administrative funds for the Block Grant and HOME program were not always supported or used in compliance with HUD requirements. We found that: (1) administrative job descriptions did not always support distributions of salary costs to the Block Grant and HOME programs; (2) the allocation of salaries was not always adequately supported as program expenditures; (3) the retirement expenditures charged were appropriate to the Block Grant program and adequately supported; and (4) some travel expenditures did not benefit the Block Grant program. However, the City and the Authority have commenced implementing appropriate corrective actions.

In our review of administrative job descriptions, we found five job descriptions where the duties did not support the distribution of administrative salaries to the Block Grant and HOME programs. For instance, the rehab specialist's job description listed duties that were primarily performed for the Lead Paint program, but a majority of the salaries were allocated to the Block Grant programs. Between June 1, 2005 and August 15, 2005, the City and the Authority redrafted the job descriptions to ensure that the descriptions demonstrate the relationship between duties and the program(s) funding the position. The Authority had not completed its revisions as of our review and was continuing to work with HUD in defining duties.

The review of allocated salaries identified five positions (four were different from the job descriptions above) where the associated timesheets did not adequately support the distribution of salaries. However, to strengthen controls management reviewed timesheet preparation with their employees to stress the importance of properly documenting the hours worked on each program. Also, a supervisor now

reviews the allocation of hours on all timesheets to ensure proper and uniform allocations. In addition, the City and the Authority modified their allocation of salaries by changing from an annual reconciliation to a quarterly reconciliation process. The review also showed that the Authority was capable of providing the information needed to perform quarterly reconciliations using actual payroll costs.

For the review of retirement expenditures, we selected \$48,032 in expenditures; which was all retirement expenditures charged to the Block Grant in 2004. We found that these expenditures were eligible and supported.

In the review of travel, we selected \$26,165 in travel expenditures. Of these charges, \$14,766 were not appropriate Block Grant expenditures or were not adequately supported. The inappropriate expenditures occurred because employees and board members used credit cards to pay for meals and spouses' travel expenses that were not supportable as Block Grant expenses. On August 11, 2005, the City and the Authority instituted a new travel policy to ensure that all travel expenses were appropriate charges to the program(s) funding the travel. This policy sets out the purposes, goals, procedures, and documentation for official program business travel. The Authority also destroyed all credit cards to prevent recurrence of inappropriate expenses. If any staff or board members travel on business, they must use personal credit cards and be reimbursed for the travel. Upon completion of the travel, travelers must submit an itemized summary with receipts showing dates and amounts of the expenses. Additionally, the Authority reimbursed the Block Grant \$14,766 for the ineligible expenses.

The deficiencies occurred because the City and the Authority had insufficient controls in place to assure program compliance. The HUD Office of Community Planning and Development identified similar deficiencies in their 2004 monitoring report. The City and the Authority have been working with the Office of Community Planning and Development to strengthen controls. The Authority's improvements to its financial management and record-keeping procedures should assure charges to federal grants are eligible and supported. With proper implementation of these changes, internal controls should be strengthened.

Conclusion

The review found that the Block Grant and HOME program administrative funds were not always supported or used in compliance with HUD requirements, however; the improvements, implemented and planned, should prevent recurrence. The City and the Authority need to continue implementing the corrective actions underway and working cooperatively with HUD to address the deficiencies.

Recommendations

Based on the conditions found and the improvements underway, we do not have any recommendations.

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Reviewed Block Grant regulations at 24 CFR [*Code of Federal Regulations*] Part 570, HOME Investment Partnerships Program regulations at 24 CFR Part 92, and Office of Management and Budget Circular A-87, “Cost Principles for State and Local Governments,” to determine eligibility for administrative costs.
- Reviewed the independent public accountants’ audited financial statements for the Authority and the North Suburban Consortium for July 1, 2002, to June 30, 2004, to determine whether issues existed regarding the Authority’s operations and administrative expenditures.
- Reviewed the Office of Community Planning and Development’s monitoring report to determine the deficiencies related to the Block Grant and HOME Investment Partnerships program administrative funds and expenditures.
- Interviewed Authority staff to determine its procedures for financial management and record keeping and the actions taken to resolve the deficiencies identified by the Office of Community Planning and Development.
- Reconciled Block Grant salaries to the general ledgers and the audited financial statements for July 1, 2002, through June 30, 2004, to determine whether any year-end adjustments existed.
- Reconciled Block Grant retirement and group health insurance to the comptroller’s quarterly payments, the general ledgers, and the audited financial statements for July 1, 2002, through June 30, 2004, to determine whether these expenses were eligible and supported.
- Reviewed job descriptions and timesheets for all staff employed between October 1, 2004, and December 30, 2004. Evaluated the Authority’s actual to budgeted costs, its wage distribution, the frequency of reconciliations, and the use of other sources of funds for administrative costs.
- Reviewed a non-representative sample of Block Grant vendors in the categories of credit cards and conferences to determine the eligibility of the expenditures. The sample included \$16,556 in credit card expenditures and \$9,608 in conference expenditures out of the \$688,699 in total administrative expenditures. These categories were identified as having ineligible expenditures in the monitoring report prepared the Office of Community Planning and Development.

We performed our fieldwork between August and November 2005, covering the period July 1, 2002, through June 30, 2005, and included other periods when appropriate. We conducted our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Financial management
- Record keeping

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 Weaknesses

We found no significant weaknesses within the scope of our review of administrative costs related to travel, salary, retirement, and health benefits.