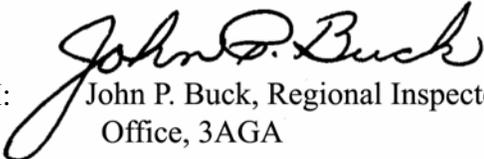


Issue Date December 20, 2006

Audit Report Number 2007-PH-1004

TO: Charles E. Halm, Director, Office of Community Planning and Development,
Baltimore Field Office, 3BD

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Regional
Office, 3AGA

SUBJECT: The City of Baltimore, Baltimore, Maryland, Generally Administered Uses of
Block Grant Funds Reviewed in Accordance with Applicable Requirements

HIGHLIGHTS

What We Audited and Why

We audited the City of Baltimore's (City) Community Development Block Grant (Block Grant) program as part of our annual audit plan. The purpose of the audit was to determine whether the City properly administered certain uses of its Block Grant funds. We wanted to determine whether the City implemented adequate procedures to oversee four of its subrecipients and whether the City's internal Code Enforcement Division had a reasonable method for determining and recording staff costs related to its Block Grant program.

What We Found

The City generally administered the particular uses of the Block Grant funds reviewed in accordance with applicable requirements. It generally implemented adequate procedures to oversee the four subrecipients reviewed. In addition, the City's internal Code Enforcement Division ensured that staff costs related to the

Block Grant program were reasonably determined and recorded. Further, the City as a whole had a reasonable method for determining and recording indirect costs associated with its Block Grant program. However, we identified minor deficiencies associated with the City's tools for measuring subrecipients' accomplishments and with one subrecipient's manual method of tracking some of its services provided, which we found susceptible to human error.

What We Recommend

We do not recommend corrective action because the U.S. Department of Housing and Urban Development's (HUD's) Baltimore Office of Community Planning and Development, in a prior review of the City, noted the same deficiencies we identified and is currently working with the City to rectify them. Also, at the time of our review, the subrecipient for which we noted the deficiency was in the process of implementing an automated system to improve tracking of the services it provides.

Auditee's Response

We discussed the report with the City during the audit and at an exit conference on December 14, 2006. The City provided written comments to our draft report on December 19, 2006. In its response, the City agreed with the report and stated it benefited from the review and comments on its subrecipient monitoring procedures. The complete text of the City's response can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVES

The U.S. Department of Housing and Urban Development (HUD) provides Community Development Block Grant (Block Grant) entitlement funds for a wide range of community development activities targeted toward revitalizing neighborhoods, economic development, and providing improved facilities and services. The amount of the annual grant awarded a grantee is determined on a formula basis to develop viable urban communities by providing decent housing and suitable living environments and by expanding economic opportunities, principally for low- and moderate-income persons.

A primary requirement of the Block Grant program is that activities and/or services funded under the program meet one of three national objectives. These objectives include activities that (1) benefit low- to moderate-income persons, (2) aid in the prevention or elimination of slums or blight, or (3) are designed to meet community development needs having a particular urgency.

HUD awarded the City of Baltimore (City) more than \$57.2 million in Block Grant entitlement funds to administer its Block Grant program during its 2004 and 2005 fiscal years.¹ The City's fiscal years 2004 and 2005 were parallel to federal fiscal years 2003 and 2004.

Fiscal year	Block Grant
2004	\$28,811,000
2005	\$28,469,000
Total	\$57,280,000

As of November 2006, the City had drawn all of its 2004 funds (awarded in federal fiscal year 2003), and approximately \$25.5 million of its 2005 funds (awarded in federal fiscal year 2004), leaving a balance of approximately \$2.9 million available for draw. This is not unusual because HUD's Integrated and Disbursements System disburses Block Grant funds on a "first in first out" basis.

The HUD Baltimore Office of Community Planning and Development performed a review of the City's Block Grant program in 2003. One general review objective was to determine whether the City followed the Block Grant eligibility, national requirement, overall benefit, and related record-keeping requirements. The review disclosed weaknesses in the City's monitoring of subrecipients. The City is currently working with the Baltimore Office of Community Planning and Development to finalize a management plan to address the weaknesses noted.

Our audit objective was to determine whether the City properly administered certain uses of its Block Grant funds. We wanted to determine whether the City implemented adequate procedures to oversee four of its subrecipients and whether the City's internal Code Enforcement Division had a reasonable method for determining and recording staff costs related to its Block Grant program.

¹ The City's fiscal years 2004 and 2005 are between July 1, 2003, and June 30, 2005.

RESULTS OF AUDIT

Finding: Uses of Funds Reviewed Were Generally Administered in Accordance with Applicable Requirements

The City generally administered the particular uses of the Block Grant funds reviewed in accordance with applicable requirements. It generally implemented adequate procedures to oversee the four subrecipients reviewed. In addition, the City's internal Code Enforcement Division ensured that staff costs related to its Block Grant program were reasonably determined and recorded. Further, the City as a whole had a reasonable method for determining and recording indirect costs associated with its Block Grant program. However, we identified minor deficiencies associated with the City's tools for measuring subrecipients' accomplishments and with one subrecipient's manual method of tracking some of its services provided, which we found susceptible to human error. At the time of our review, both the City and the subrecipient were in the process of addressing the deficiencies noted.

The City Had Adequate Procedures in Place to Oversee the Four Subrecipients Reviewed

The City generally implemented adequate procedures to oversee the four subrecipients reviewed. The subrecipients were Bon Secours of Maryland, Oliver Community Association, the Commission on Aging and Retirement Education, and the Baltimore Development Corporation. Collectively, the four subrecipients were awarded more than \$2 million in Block Grant funds to administer eligible Block Grant activities during fiscal years 2004 and 2005. The City had procedures to (a) select the subrecipients and execute agreements with them concerning the use of Block Grant funds and (b) develop and implement monitoring schedules to ensure that the subrecipients were operating in compliance with their agreements with the City. For example, the City performed risk analyses to facilitate selection of the subrecipients and executed agreements with the subrecipients that included the scope of services, national objectives and eligible activities, and record-keeping requirements.

The City also established and implemented monitoring schedules for the subrecipients and properly documented the objectives, findings if any, and proposed corrective actions pertaining to its monitoring activities. However, we noted some minor deficiencies associated with the City's tools for measuring subrecipients' accomplishments. Its monitoring checklists did not require the monitors to specify how subrecipients complied with their national objective(s)

and reporting requirements. Further, there was little documentation to support the monitors' review of subrecipients' quarterly reports on their accomplishments.

HUD identified similar deficiencies in its 2003 review of the City and is currently working with the City to address those deficiencies. HUD's finding pertaining to the City's monitoring of subrecipients was one of nine findings noted in conjunction with the 2003 review of the City. As of October 2006, the City had worked with HUD to close six of the other eight findings. In recent correspondence, dated October 13, 2006, between HUD and the City, HUD stated that its 2003 finding concerning the City's monitoring of subrecipients would be closed pending the City's implementation of satisfactory revised monitoring checklists and completion of related staff training. The City expected to provide HUD its revised monitoring checklists by the end of the calendar year.

**Subrecipients Reviewed on Site
Met the National Objective
Requirements of the Block
Grant Program**

Recipients of funding under the Block Grant program are required to provide services or engage in activities which meet the national objectives of the program. Based on regulations at 24 CFR [*Code of Federal Regulations*] 570.200(a)(2), activities which comply with the national objective requirements of the Block Grant program include activities benefiting low- and moderate-income families, activities aiding in the prevention or elimination of slums or blight, or activities designed to meet community development needs having a particular urgency. We performed on-site reviews of the Commission on Aging and Retirement Education (Commission) and the Baltimore Development Corporation (Corporation) to determine whether they adequately documented the activities and/or services they provided and whether they met their national objective requirements.

The Commission received Block Grant funding to provide public services to elderly persons. Its memorandum of understanding with the City stated that its national objective was to serve low- to moderate-income limited clientele. According to 24 CFR [*Code of Federal Regulations*] 570.208(a)(2)(A), elderly persons are included in the limited clientele category that is presumed to meet the low- to moderate-income criterion. In addition, based on regulations at 24 CFR [*Code of Federal Regulations*] 570.506(b)(3)(i), the Commission only needs to establish that it is designed for the particular needs of or used exclusively by seniors citizens. During our on-site review, we observed elderly persons participating in social/recreational activities and receiving lunch meal and health care services. We also determined that the Commission had a system for identifying eligible clientele and tracking services provided. However, we noted that the Commission's manual method of tracking some of its clients served was inherently susceptible to human error. Based on a random review of select

recreational activity logs, we determined that the Commission overstated the number of clients served for two activities by seven counts over a five-day span. Officials of the Commission stated that efforts were underway to implement an electronic tracking system to ensure that the Commission properly tracks its services provided. Currently, the Commission only tracks its meal services electronically; however, as of August 2006, it had ordered the equipment needed to implement an electronic tracking system to track its other services provided.

The other subrecipient we visited (the Corporation) is a private nonprofit agency, which received Block Grant funding to perform various planning activities for the City. The Corporation develops functional plans in areas such as housing, land use and urban environmental design, economic development, and small area and neighborhood plans for the City. According to regulations at 24 CFR [*Code of Federal Regulations*] 570.205, the type of planning that the Corporation performs is eligible for Block Grant funds. We found records such as functional planning sketches and internal notes concerning development options for one project and correspondence detailing the site development and utility issues relating to another project. The records reviewed were consistent with requirements stipulated in the Corporation's written agreement with the City and were related to the activities reflected on the Corporation's quarterly reports to the City. Also, based on testing of staff members' time sheets for a random selection of four consecutive pay periods, we found the information in the time sheets to be consistent with the hours reflected in the Corporation's quarterly reports to the City.

Based on observations during our site visits, we concluded that the two subrecipients were in compliance with the national objective requirement of the Block Grant program.

The City's Code Enforcement Division Reasonably Determined and Recorded Staff Costs

The City's Code Enforcement Division had a reasonable system for determining and recording staff costs related to the Block Grant program. We selected the division for review because it received more than \$11 million of approximately \$57.2 million awarded to the City in Block Grant funds for fiscal years 2004 and 2005. We reviewed how staff from the division's housing inspection, legal, and demolition departments determined and recorded time between Block Grant and non-Block Grant activities. Based on our review of three randomly selected pay periods, we found that costs charged to the Block Grant program were supported by a combination of activity logs and time sheets. The activity logs and time sheets distinguished time spent on Block Grant activities from time spent on other activities. In addition, division staff used various forms of computerized

databases to document the work they performed. We also performed some random verifications of inspection and demolition activities reported and did not note any significant deficiencies or problems.

The City Had a Reasonable Method for Developing Its Annual Indirect Cost Allocation Plan

The City contracts out the preparation of its annual indirect cost allocation plan (cost plan) to an independent consultant. The City's cost plans for fiscal years 2004 and 2005 were prepared by its contracted consultant. We reviewed the methodology used to calculate the City's cost rates for fiscal years 2004 and 2005 and found it reasonable. In addition, we obtained data on the City's indirect costs incurred for the Block Grant program during fiscal years 2004 (\$1.6 million) and 2005 (\$1.9 million) and determined that the costs incurred were lower than the maximum allowable indirect costs by more than 20 and 25 percent, respectively.

SCOPE AND METHODOLOGY

To accomplish the survey objectives, we

- Reviewed applicable HUD regulations relating to the administration of the Block Grant program.
- Obtained a list of subrecipients awarded Block Grant funds for fiscal years 2004 and 2005, nonstatistically selected four subrecipients that were awarded more than \$2 million, and reviewed their monitoring files to verify and assess the adequacy of the monitoring performed.
- Performed on-site reviews for two of the four subrecipients selected to determine whether they had valid supporting documentation for costs charged to the Block Grant program and for quarterly reported data on services provided.
- Nonstatistically selected a sample of housing inspectors within the City's Code Enforcement Division and reviewed their timesheets for select pay periods to determine whether their time charged to the Block Grant program was adequately supported.
- Nonstatistically selected a sample of legal staff within the City's Code Enforcement Division and reviewed their timesheets for select pay periods to determine whether their time charged to the Block Grant program was adequately supported.
- Verified random samples of inspection and demolition activities to determine the validity of time charged to the Block Grant program.
- Conducted interviews with officials and employees of HUD's Community Planning and Development Division, the City, and subrecipients of the Block Grant program.

To achieve our audit objectives, we relied in part on computer-processed data in the City's database. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found it to be adequate for our purposes.

We performed the majority of our fieldwork between April 21, 2006, and June 13, 2006, at the offices of the City. In addition, we conducted on-site visits at the facilities of the following two subrecipients: the Commission on Aging and Retirement Education, and the Baltimore Development Corporation. The audit generally covered the period July 1, 2003, through June 30, 2005.

We performed our review 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:

- Policies and procedures to ensure that Block Grant subrecipients operated in compliance with their agreements (i.e., grant expenditures were eligible, met national objective requirements, and were adequately supported).
- Procedures to ensure that time charged to the Block Grant program was reasonably accurate.

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

Based on our review, we did not identify any significant weaknesses in the relevant controls identified above.

APPENDIXES

Appendix A

AUDITEE COMMENTS



**BALTIMORE
HOUSING**
MARTIN O'MALLEY
Mayor

PAUL T. GRAZIANO
Executive Director, HABC
Commissioner, HCD

December 18, 2006

Mr. John P. Buck, Regional Inspector General for Audit
Philadelphia Regional Office
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Dear Mr. Buck:

Subject: Draft Audit Report- The City of Baltimore's CDBG Program

Thank you for your December 5, 2006 transmittal of the above referenced draft Audit. I, and my staff, have carefully reviewed the draft. In it you note:

Our audit objective was to determine whether the City properly administered certain uses of its Block Grant funds. We wanted to determine whether the City implemented adequate procedures to oversee four of its subrecipients and whether the City's internal Code Enforcement Division had a reasonable method for determining and recording staff costs related to its Block Grant program.

We are pleased that you determined that the City generally administered its use of reviewed CDBG funds in accordance with applicable requirements, that adequate oversight procedures were generally implemented relative to the subrecipients reviewed and that the Code Enforcement Division processes ensured that CDBG-incurred staff costs were reasonably determined and recorded. Additionally, you found that the City's method for determining and recording indirect costs associated with the CDBG program were reasonable.

The complex regulatory structure and diversity of activity types encompassed by the Block Grant program make it an arduous one to audit. In carrying out the audit your staff overcame these inherent difficulties and were extremely diligent and thorough in analyzing large amounts of diverse financial and programmatic information. We have benefited from their review of, and comments on, subrecipient monitoring procedures.

Again, thank you for the draft Audit, which confirms the general adequacy of our CDBG oversight procedures. If there are any questions concerning this matter please do not hesitate to contact me.

Sincerely,

Paul T. Graziano
Commissioner

