



Issue Date	January 31, 2007
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Audit Report Number	2007-AT-1003
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TO: John L. Perry, Director, Office of Community Planning and Development,
Atlanta, Georgia 4AD

FROM: *James D. McKay*
James D. McKay
Regional Inspector General for Audit, 4AGA

SUBJECT: Gwinnett County, Georgia, Subrecipients Did Not Provide Funds
Required by Their Contracts

HIGHLIGHTS

What We Audited and Why

We reviewed Gwinnett County's (grantee) Community Development Block Grant (Block Grant) and HOME programs. The review was conducted as part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) strategic plan. The objective of our review was to determine whether the grantee used its community development grant funds in accordance with HUD rules and regulations.

What We Found

The Block Grant and HOME projects reviewed were eligible and met HUD's national objectives, and the subrecipients were operating the projects in accordance with their contract with the grantee. However, the grantee's subrecipients did not provide their share of the project funding as required by their contracts. As of October 31, 2006, the subrecipients had not provided \$278,418 toward the projects. If the subrecipients had

Table of Contents

provided the funds specified in their contracts, the grantee's contribution would have been less. The grantee would then have had additional funds to further its community development activities.

What We Recommend

We recommend that the director of the Office of Community Planning and Development require the grantee to either collect the funds due from the subrecipients, according to the contracts, or amend the contracts appropriately. In the future, if the grantee does not require the subrecipients to provide funding to the projects, the contracts should not contain this requirement. Also, the grantee should establish controls to assure that all contract requirements are enforced.

Auditee's Response

We discussed the finding with the grantee and HUD officials during the audit. We provided a copy of the draft report to grantee officials on January 8, 2007, for their comments and discussed the report with the officials at the exit conference on January 12, 2007. The grantee provided written comments to our draft report during the exit conference.

The grantee generally disagreed with the contents of the finding section. However, the grantee agreed to alter the subrecipients contract language and increase the monitoring and oversight of each project to capture all funds expended and permit the most accurate reporting to HUD on total projects costs for all Block Grant funded activities. The grantee stated that supplemental documentation, on the non-Block Grant expenditures, was available for review.

The complete text of the grantee's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	5
Finding 1: The Grantee’s Subrecipients Did Not Provide Their Share of Project Funding as Required by Their Contracts	
Scope and Methodology	7
Internal Controls	9
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	10
B. Auditee Comments and OIG’s Evaluation	11

BACKGROUND AND OBJECTIVES

Gwinnett County, Georgia (grantee), an Entitlement Urban County, receives grant funds for housing, community development, and homeless programs directly from the U.S. Department of Housing and Urban Development (HUD) under Title 1 of the Housing and Community Development Act of 1974, as amended, Title II of the National Affordable Housing Act, and the Stewart B. McKinney Homeless Assistance Act. The funds are provided on a formula-allocation basis. HUD headquarters in Washington, DC, performs a mathematical calculation, which takes into account many demographic, economic, and housing factors, to determine funding allocation amounts for local entitlement grantees throughout the nation.

The grantee is governed by a five-member board of commissioners that sets direction and formulates policies for the county government, adopts the budget, authorizes expenditures, and approves or disapproves specific actions. Members are elected for staggered terms. The grantee's community development programs are administered through the Division of Financial Services Budget Division. The grantee administers four HUD community development grant programs. They include the Community Development Block Grant (Block Grant) program, the HOME program, the Emergency Shelter Grant program, and a downpayment assistance program. The grant funds provided by HUD during 2006 include \$4.2 million for the Block Grant program, \$1.5 million for the HOME program, \$177,000 for the Emergency Shelter Grant program, and \$32,000 for the American Dream Downpayment Initiative program.

W. Frank Newton, Inc., a program management firm, manages the programs for the grantee. The management firm also manages programs for Cobb County and Clayton County, Georgia.

The objective of our survey was to determine whether the grantee used its community development grant funds in accordance with HUD rules and regulations.

RESULTS OF AUDIT

Finding 1: The Grantee’s Subrecipients Did Not Provide Their Share of Project Funding as Required by Their Contracts

We reviewed six subrecipient projects funded with Block Grant funds. Although the projects were eligible and met the national objectives, the subrecipients for four of the six projects did not provide the full funding as required by their contracts with the grantee. As of October 31, 2006, the subrecipients had not provided \$278,418 toward the projects. This occurred because the grantee did not enforce the provisions of the subrecipient contracts. If the subrecipients had provided the funds specified in their contracts, the grantee’s contribution would have been less. The grantee would then have had additional funds to further its community development activities.

Subrecipients Did Not Provide Required Funds

Based on the contracts, the funding for the subrecipients was as follows:

Subrecipient project	Maximum Block Grant funds	Block Grant funds provided	Minimum subrecipient funds	Subrecipient funds provided	Subrecipient funds not provided
Parking lot paving	\$121,000	\$121,000	\$121,105	\$76,357	\$44,748
Medical and electronic equipment	\$140,000	\$136,678 ¹	\$2,000	\$0	\$2,000
Ceiling repairs	\$240,000	\$240,000	\$16,278	\$11,558	\$4,720
Senior center	\$500,000	\$500,000	\$400,000	\$173,050	\$226,950
Totals	<u>\$1,001,000</u>	<u>\$997,678</u>	<u>\$539,383</u>	<u>\$260,965</u>	<u>\$278,418</u>

¹ The subrecipient has \$3,322 in Block Grant funds remaining on its contract with the grantee.

Although the Block Grant program does not require subrecipients to provide funds for its projects, the grantee made this a requirement of the subrecipient contracts. Each contract specifically stated that the subrecipient would provide “at least” a specified amount of funds while the grantee would provide funding “up to” a specified amount.

We discussed the contracts with representatives of the managing firm administering the Block Grant program for the grantee and with representatives of the grantee. According to the representatives, they did not enforce the provisions of the contracts because the contracts were prepared at the beginning of the program year and were only estimates of the funds needed to pay for the costs of the projects. They stated that since the Block Grant program did not require the subrecipients to provide any funding, they did not consider it necessary to attempt to collect the funds or amend the contracts to reflect the change in the amount of funds due from the subrecipients. They further stated that they did not feel it was their responsibility to monitor the funds provided by the subrecipient, since the subrecipients would have to pay for any difference in project costs that might occur. Grantee representatives stated that they would have their legal division review the requirements of the contract.

Federal regulations at 24 CFR [Code of Federal Regulations] 570.501 establish the grantee’s responsibility for administering the grant. Paragraph (b) states that the recipient is responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate action when performance problems arise. However, the grantee did not assure that the subrecipients provided funds specified in their contracts.

As a result of our review, the grantee gathered supplemental documentation on the non-Block Grant expenditures made by the subrecipients, and stated that it was available for our review. However, the supplemental documentation did not support the non-Block Grant expenditures.

Recommendations

We recommend that the director, Office of Community Planning and Development,

- 1A. Require the grantee to collect \$278,418 due from the subrecipients to the program for future community development activities or amend the contracts to remove the funding requirement.
- 1B. Require the grantee to specifically state its requirements in future contracts.
- 1C. Require the grantee to establish procedures that assure compliance with contract provisions.

SCOPE AND METHODOLOGY

The community development programs included activities at seven subrecipient cities and 11 subrecipient nonprofit organizations. The HOME program included two activities. We did not review the Emergency Shelter Grant program or the downpayment assistance program. We selected the following projects for review based on the project status and amount of funding:

Program	Subrecipient Project	Funding	Private funding
Block Grant	Parking lot paving	\$121,000	\$121,105
	Health center	\$140,000	\$2,000
	Ceiling repairs	\$240,000	\$16,278
	Shelter for teenage boys	\$496,000	\$0
	Senior center	\$500,000	\$500,000
	Teen center	\$500,000	\$50,000
HOME	Affordable housing	\$300,000	Various amounts
	Affordable housing	\$400,000	Various amounts

To achieve our review objective, we reviewed

- Applicable laws, regulations, and other (HUD) program requirements;
- Selected community development activities performed by the grantee for eligibility and compliance with HUD regulations; and
- The financial management and procurement system, including management’s controls over cash receipts, disbursements, purchases, contracts, and operations.

We interviewed the Atlanta, Georgia, Office of Community Planning and Development program officials and grantee management and staff. We reviewed the project files, the subrecipients’ contracts, payments to the subrecipients, and supporting documentation. We physically inspected each project to determine its status and conformity with the scope of the subrecipients’ contracts.

Our review generally covered the period January 1, 2004, through June 30, 2006. We expanded our review period as needed to accomplish our objective. We performed our on-site work from September through October 2006 at the grantee’s administrative offices, the consultant’s offices in Lawrenceville, Georgia, and the Atlanta field office.

Table of Contents

We performed our review in accordance with generally accepted government auditing standards.

Table of Contents

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:

- Compliance with laws, regulations, policies, and procedures that management has implemented to reasonably assure that resource use is consistent with laws and regulations.
- Policies and procedures that management has implemented to reasonably assure that resources are safeguarded against waste, loss, and misuse.

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 believe the following item is a significant weakness:

- The grantee did not have adequate controls to ensure that the subrecipients were providing their share of the funding for the projects (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

<u>Recommendation</u>	<u>Funds to be put to better use 1/</u>
1A	<u>\$278,418</u>
Total	<u>\$278,418</u>

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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the grantee decides to pursue the collection of the funds due from the subrecipients, it will realize additional funds that can be used to further its community development activities.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Gwinnett County Community Development Program

575 Old Norcross Road, Suite A

Lawrenceville, Georgia 30045-4367

(770) 822-5190 Fax 822-5193 TDD 822-5195 email: gchcd@gwinnettcounty.com

Administered by W. Frank Newton, Inc.

Program Management Firm for Gwinnett County

An Equal Opportunity Employer

Frank Newton, President



ORIGINAL

January 12, 2007

Mr. James D. McKay
Regional Inspector General for Audit
United States Department of Housing and Urban Development
Richard B. Russell Federal Building
75 Spring Street, S.W., Room 330
Atlanta, Georgia 30303-3388

Attention: Mr. Dennis Durick, Senior Auditor

Dear Mr. McKay:

Our office has received the draft report (transmitted on January 8, 2007) prepared by your staff, which addresses their review of selected HUD grant activities carried out by Gwinnett County. We have reviewed the draft report and have prepared information in this correspondence which should be included in the final report.

The information which follows was discussed with Mr. Dennis Durick at the Exit Conference held in Lawrenceville on January 12, 2007.

1. AUDIT REPORT INFORMATION

HIGHLIGHTS

What We Audited and Why

"The objective of our review was to determine whether the grantee used its community development grant funds in accordance with HUD rules and regulations."

What We Found

"The Block Grant and HOME projects reviewed were eligible and met HUD's national objectives and the subrecipients were operating the projects in accordance with their contract with the grantee. However the grantee's subrecipients did not provide their share of the project funding as required by their contracts. As of October 31, 2006, the subrecipients had not provided \$278,283 toward the projects. If the subrecipients had provided the funds specified in their contracts, the grantee contribution would have been less. The grantee would then have had additional funds to further its community development activities."

Gwinnett County Response

The Gwinnett County Community Development Program staff disagrees with the contents of the section entitled "What We Found."

Comment 1

1. Two of the four projects listed were not complete at the time of the review, and are not complete today. Therefore, it was premature to conclude that the subrecipients had not provided the required non-CDBG Program funds for their respective projects. [See attached spreadsheet].

Comment 2

2. The subrecipients with the other completed two projects have expended non-CDBG funds which far exceed the required amounts in their respective CDBG Subrecipient Agreements [see attached spreadsheet].

Comment 2

3. The draft audit report lists a total of \$278,265 in Subrecipient Funds not provided. The documentation available in our office demonstrates that these subrecipients provided a total of \$1,283,054 in non-CDBG funds. The subrecipients expended \$743,776 more than required by the CDBG Subrecipient Agreements.

Comment 3

Therefore, Gwinnett County respectfully requests that there should be "No Findings," in this Audit Report.

The term "finding" used in the draft audit report may be somewhat confusing to a lay reader. As already stated in the Highlights of the draft audit report, there were no violations of statutes or regulations governing the CDBG Program. Therefore, it should be noted that there is no "finding," as defined by HUD's Office of Community Planning and Development.

2. What We Recommend

"We recommend that the director of the Office of Community Planning and Development require the grantee to either collect the funds due from the subrecipients, according to the contracts, or amend the contracts appropriately. In the future, if the grantee does not require the subrecipients to provide funding to the projects, the contracts should not contain this requirement. Also, the grantee should establish controls to assure that all contract requirements are enforced."

Gwinnett County Response

The response provided above [and the attached spreadsheet], demonstrate that the subrecipients have provided [3 of 4 projects] or will still provide [1 of 4 projects] the required non-CDBG funds. Moreover, Gwinnett County requires its subrecipients to expend their own funds on project expenses, then receive reimbursements from CDBG funds. **Therefore, no collection of funds is required from subrecipients.**

However, as recommended by the draft audit report, Gwinnett County will take the following steps:

1. Alter the language in its CDBG Subrecipient Agreements to read:

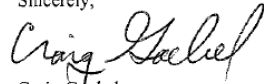
The total FFY 2007 Community Development Block Grant (CDBG) Program budget for this activity [insert name of activity] may not exceed \$X. The Subrecipient shall provide any additional funds required to complete the activity, as necessary to complete the project and make it eligible under the CDBG Program [i.e., serve CDBG-eligible beneficiaries [identify the beneficiaries].

2. Increase the monitoring and oversight of each project to capture accurately all funds expended [CDBG and other] to permit the most accurate possible reporting to HUD on total project costs on all CDBG-funded activities.

Mr. James D. McKay
January 12, 2007
Page 3

Supplemental documentation, on non-CDBG expenditures by subrecipients, is available at the Gwinnett County Community Development Program Office, if HUD staff wish to review the documents.

Sincerely,



Craig Goebel
Director

Attachment

cc: Ms. Tanikia Jackson, Grants Manager, Gwinnett County Department of Financial Services
Mr. John Perry, Director, Atlanta Office of Community Planning and Development, United States Department of Housing and Urban Development

Subrecipient CDBG Funds - Gwinnett County							
Subrecipient Project	Maximum Block Grant Funds	Block Grant Funds Provided	Minimum Subrecipient Funds	Subrecipient Funds Provided (Audit Report)	Subrecipient Funds not Provided (Audit Report)	Subrecipient Funds not Provided (Actual)	Subrecipient Funds not Provided (Actual) to date
*Parking Lot Paving (Correct project name - Gwinnett Association for Retarded Citizens - HI Hope Center Site Improvements) Medical and electric equipment (Correct project name - Good Samaritan Health Center of Gwinnett, Inc Health Equipment & Computer Equipment Purchase) (Project Not Complete)	\$121,000.00	\$121,000.00	\$121,000.00	\$76,375.00	\$44,625.00	\$143,455.00	-\$22,486.00
**Senior Center (Correct project name - Gwinnett Association for Retarded Citizens - HI Hope Center Improvements)	\$240,000.00	\$240,000.00	\$16,278.00	\$11,588.00	\$4,690.00	\$18,754.00	-\$2,476.00
***Senior Center (Correct project name - City of Snellville Senior Center Construction) (Project Not Complete)	\$500,000.00	\$500,000.00	\$400,000.00	\$173,950.00	\$226,950.00	\$1,120,844.00	\$720,844.00
Totals	\$1,001,000.00	\$997,378.00	\$539,278.00	\$261,913.00	\$278,565.00	\$1,283,054.00	-\$743,776.00

* Gwinnett Assoc. for Retarded Citizens also received in donations of service or equipment \$34,366 Plus retainage to be paid \$28,000

N:\WPYTONY\Audit\Corrected totals.xls

OIG Evaluation of Auditee Comments

Comment 1

The two subrecipient projects that the grantee stated were not complete at the time of the review were the senior center project and the medical and electronic equipment project.

We visited the senior center project on October 18, 2006. All major construction was completed and the center was in full operation. At October 31, 2006, the grantee's records showed that the subrecipient had only provided \$173,051 of its \$400,000 share of project funding. The grantee's files did not document any tracking of the subrecipient payments to assure that the subrecipients had provided their remaining share of the project costs.

We visited the medical and electronic equipment project at the health center on October 20, 2006. The health center was operational. The subrecipient had not provided its share of the project costs, and the grantee's files did not document that it required the subrecipient to pay its share of the project costs.

Comment 2

At the time we completed our review, the grantee's files did not document the total amounts listed on the spreadsheet to support the funds provided. As a result of our review, the grantee gathered documentation to support the additional payments. However, the supplemental documentation did not support the additional payments.

Comment 3

According to 24 CFR 570.501, the grantee is responsible for administering the grant. The grantee's failure to assure that the subrecipients provided the funds specified in their contracts violates this requirement.