U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Midwest
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

AUDIT MEMORANDUM
2001-CH-1801

January 10, 2001

MEMORANDUM FOR: Lana J. Vacha, Director of Community Planning and Development, Ohio State Office

/signed/
FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Cuyahoga County
Community Development Block Grant Program
Revolving Loan Fund
Cleveland, Ohio

We completed a review of Cuyahoga County's Revolving Loan Fund backed by the County's Community Development Block Grant Program. We initiated our review based upon an anonymous complaint to our Hotline. The complainant alleged that the County misused Block Grant funds for the Loan Fund to pay expenses of the Special Purpose Grant for the Bellefaire Residential Treatment Center for Children. The objectives of our review were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the Revolving Loan Fund were followed.

The County did not follow Federal requirements when it used Community Development Block Grant funds to pay administration and construction expenses of the Special Purpose Grant for the Bellefaire Residential Treatment Center for Children. Contrary to the Office of Management and Budget's requirement, the County used $308,495 of Block Grant funds to pay the expenses of the Special Purpose Grant because the County could not draw down the Special Purpose Grant funds. HUD did not permit the County to draw down the Special Purpose Grant funds because the County did not submit the required closeout documents. The Business Services Manager for the County's Department of Development said she was not aware that the County's use of Community Development Block Grant funds to pay the expenses of the Special Purpose Grant was not in accordance with Office of Management and Budget Circular A-87. As a result, HUD's funds were not used efficiently and effectively.

Exit

Subsequent to the completion of our on-site audit work, the County repaid the $308,495 to the Community Development Block Grant Program.

Cuyahoga County was organized under the laws of the State of Ohio. The County is governed by a three-member Board of Commissioners. The President of the County's Board is Jane L. Campbell. The Department of Development administers the County's Community Development Block Grant Program. Steven Sims is the Department's Director. The County's official records for the Revolving Loan Fund Program are at 112 Hamilton Court, Cleveland, Ohio.

To determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the Revolving Loan Fund were followed, we reviewed the County's: Community Development Block Grant Agreements with HUD for the periods between June 1, 1998 and December 31, 2000; Special Purpose Grant Agreement for the Bellefaire Residential Treatment Center for Children; and Revolving Loan Fund and Special Purpose Grant files. We also reviewed HUD's files for the County to obtain an understanding of the County's administration of its Revolving Loan Fund and Special Purpose Grant, and Title 24 of the Code of Federal Regulations Part 85 and Office of Management and Budget Circular A-87 regarding the use of Block Grant funds to pay expenses of the Special Purpose Grant. We interviewed HUD's and the County's staff to determine the actions taken to closeout the Special Purpose Grant.

We presented our draft finding to the County's Director of Development and HUD's staff during the review. The County's Director declined our offer for an exit conference; however, he did provide written comments to the draft finding. According to those comments, the County was not aware that it lacked procedures and controls to ensure the use of Federal funds meets Office of Management and Budget Circular A-87. We included an excerpt of the County's comments with the finding. The complete text of the comments are in Appendix A.

A copy of this memorandum was provided to the County's President of the Board of Commissioners and the Director of Development.

Within 60 days, please provide us, for each recommendation made in this memorandum, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the review.

Should you or your staff have any questions, please contact me at (312) 353-7832.

The County's Use Of $308,495 In Block Grant Funds Did Not Meet Federal Requirements

Cuyahoga County did not follow Federal requirements when it used Community Development Block Grant funds to pay administration and construction expenses of the Special Purpose Grant for the Bellefaire Residential Treatment Center for Children. Contrary to the Office of Management and Budget's requirement, the County used $308,495 of Block Grant funds to pay the expenses of the Special Purpose Grant because the County could not draw down the Special Purpose Grant funds. HUD did not permit the County to draw down the Special Purpose Grant funds because the County did not submit the required closeout documents. The Business Services Manager for the County's Department of Development said she was not aware that the County's use of Community Development Block Grant funds to pay the expenses of the Special Purpose Grant was not in accordance with Office of Management and Budget Circular A-87. As a result, HUD's funds were not used efficiently and effectively.

Federal Requirements

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.

Office of Management and Budget Circular A-87, Section C of Attachment A, paragraph 3c, requires that costs allocable to a particular Federal award may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

The County Misspent Block Grant Funds

Contrary to the requirement of Office of Management and Budget Circular A-87, Cuyahoga County used Community Development Block Grant funds to pay administration and construction expenses of the Special Purpose Grant for the Bellefaire Residential Treatment Center for Children.

In 1993, HUD awarded a $2 million Special Purpose Grant for the Bellefaire Residential Treatment Center. The Treatment Center is a non-profit mental health and child development agency that provides services to

children suffering from emotional, physical, and/or substance abuse. The Special Purpose Grant Agreement required the County to act as the Grant administrator to ensure the Grant funds were used properly.

The Special Purpose Grant for the Bellefaire Residential Treatment Center for Children incurred $1,986,741 of administration and construction expenses. The County used its own funds to pay the expenses. This is the County's standard procedure for its Department of Development activities. The County Treasurer is then reimbursed by the Department of Development using the appropriate grant funds. The County drew down $1,678,246 of Special Purpose Grant funds from HUD and reimbursed the County Treasurer. In April 1996, the County's attempt to draw down funds from the Special Purpose Grant was rejected by HUD's automated funds control system. HUD rejected the County's request because the amount of funds drawn down plus the funds requested by the County would have exceeded 80 percent of the funds awarded under the Special Purpose Grant. In order to receive the requested funds, the County was required to submit progress reports and closeout documents to HUD.

The County contacted HUD's Special Purpose Grant Coordinator for the Cleveland Multifamily Program Center to determine the required documents for submission so the Special Purpose Grant funds could be drawn down. The County submitted documentation to HUD in July 1996 and December 1996 to closeout the Special Purpose Grant. However, the County provided inaccurate information regarding the balance of the Special Purpose Grant funds and did not submit to HUD a cost schedule for the Grant which HUD had requested.

The County's Director of Development said his Office spent too much time and effort trying to closeout the Special Purpose Grant. Therefore, the Director authorized the transfer of $308,495 in Community Development Block Grant funds to reimburse the

County Treasurer for the administration and construction expenses already paid.

HUD's regulation requires the County to follow Office of Management and Budget Circular A-87. The Circular prohibits costs allocable to a particular Federal grant from being charged to other Federal grants to overcome fund deficiencies.

According to the County's Business Services Manager for the Department of Development, she was not aware that the County's use of Community Development Block Grant funds to pay the expenses of the Special Purpose Grant was not in accordance with Office of Management and Budget Circular A-87. As a result, HUD's funds were not used efficiently and effectively.

After we began our review in August 2000, the County prepared documentation to closeout the Special Purpose Grant. The County presented the closeout documentation to HUD on October 31, 2000.

Auditee Comments

Excerpts paraphrased from the County's comments on our draft finding follow. Appendix B, pages 8 and 9, contains the complete text of the comments.

The last sentence of Office of Budget and Management Circular A-87, Section C of Attachment A, paragraph 3c is not referenced or included in the draft finding. The entire paragraph states that any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements.

The County believes that the last sentence can be interpreted to provide support for its use of Block

Grant funds. The administration and construction costs were allowable under the Community Development Block Grant Program and arguably an existing program agreement was established in the County's Consolidated Plan.

OIG Evaluation Of Auditee Comments

The County's use of Community Development Block Grant funds to pay for administration and construction expenses like those incurred for the Special Purpose Grant could have been an eligible use of Block Grant funds. However, HUD restricted the County's use of the Special Purpose grant funds, pending the County's submission to HUD of required documentation. Thus, Section C of Attachment A, paragraph 3c of Circular A-87 prohibited the County from charging costs allocable to the Special Purpose Grant to the Community Development Block Grant Program.

Auditee Comments

The Inspector General's review afforded HUD and the County an opportunity to reopen conversations on the Special Purpose Grant for the Bellefaire Residential Treatment Center. The County learned that Special Purpose Grant funds remained available for it's use. The County's staff worked with HUD's staff to complete the Grant closeout report. HUD approved the Grant closeout report and allowed the County to draw down $308,495 on November 2, 2000 from the Special Purpose Grant. The Special Purpose Grant funds were deposited with the County Treasurer and the Block Grant funds were reimbursed.

OIG Evaluation Of Auditee Comments

Based upon the documentation provided by the County, we removed the recommendation that required the County to reimburse the $308,495 to it's Community Development Block Grant Program.

Auditee Comments

The County was unaware that the Inspector General's review revealed any evidence that the County lacked the necessary procedures and controls to ensure that regulations are followed regarding the use of Federal funds.

OIG Evaluation Of Auditee Comments

According to the County's Business Services Manager for the Department of Development, she was not aware that the County's use of Community Development Block Grant funds to pay the administration and construction expenses of the Special Purpose Grant was not in accordance with Office of Management and Budget Circular A-87. Therefore, the County needs to establish the necessary procedures and controls to follow Office of Management and Budget Circular A-87.

Recommendation

We recommend that the Director of Community Planning and Development, Ohio State Office, assures that Cuyahoga County:

A. Establishes procedures and controls to ensure that it follows Office of Management and Budget Circular A-87 regarding the use of Federal funds.

Auditee Comments

November 13, 2000

Mr. Heath Wolfe
Assistant District Inspector General for Audit, Midwest
U.S. Department of Housing and Urban Development
Office of the Inspector General, Midwest
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Re: Cuyahoga County use of Block Grant Funds – Bellefaire Project

Dear Mr. Wolfe:

We offer the following response to the draft audit finding that the County's use of $308,495 in Block Grant Funds did not meet federal requirements.

The last sentence of Circular A-87, Section C of Attachment A, paragraph 3c is not referenced or included in the draft Inspector General's report, but is important to a full understanding of the County's actions and rationale. Therefore, the entirety of the section is included for reference as follows:

> "any cost allocable to a particular Federal Award or cost objective under the principles provided for in this circular may not be charged to other Federal Awards to overcome fund deficiencies, to avoid restrictions imposed by law, or terms of the Federal awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements."

We believe that the last sentence can be interpreted to provide support for our use of Block Grant Funds, as the subject costs were allowable under the Community Development Block Grant program and arguably an "existing program agreement" was established through disclosure at public meetings and providing in our Consolidated Plan for the potential to use Block Grant Funds for this purpose.

The complete and accurate explanation given by the County's Director of Development to the Inspector General's review team for using Block Grant Funds, is that staff turned its attention from efforts to recover the costs under the Special Purpose grant after the closeout report was not accepted and no explanation was provided by HUD as to why the report was unacceptable. HUD never responded to repeated requests for technical assistance to complete the report, and County staff was given the impression the funds were no longer available. This being the case, staff undertook a review of the project expenditures and determined that the costs were eligible under CDBG regulations. As such, Block Grant was considered an appropriate resource to apply to the project.

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The Inspector General's review afforded HUD and the County the opportunity to reopen conversations on the Bellefaire Project. We learned that unspent funds under the Special Purpose Grant remained available for our use, and County staff worked cooperatively with local HUD officials to satisfactorily complete the closeoTD ( ) Tj 18 0 TD -0.141 Tc 0.2708 Tw ire30