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Audit Report Number	2006-AT-1014

TO: Nelson R. Bregon, General Deputy Assistant Secretary for Community Planning and Development
James D. McKay

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

SUBJECT: The State of Florida Lacked Adequate Procedures to Prevent Possible Duplicate Disaster Recovery Benefits to Recipients

HIGHLIGHTS

What We Audited and Why

As part of the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General's (OIG) audit plan, we audited the 2004 Community Development Block Grant disaster recovery funds provided to the State of Florida (State). We selected this grant for review based on risk factors associated with fraud, waste and abuse.

Our audit objectives were to determine whether the State (1) awarded and disbursed disaster recovery funds in accordance with HUD requirements and (2) implemented adequate procedures for monitoring the projects financed by the disaster recovery funds.

What We Found

The State awarded and disbursed the 2004 Community Development Block Grant disaster recovery funds in accordance with HUD requirements. However, program files lacked evidence that the State verified whether recipients used

disaster recovery funds for activities reimbursed by the Federal Emergency Management Agency, Small Business Administration, or other sources. This occurred because the State did not have adequate procedures to prevent possible duplicate disaster recovery payments to recipients. As a result, the opportunity existed for a recipient to receive funding for the same activity from several sources.

What We Recommend

We recommend that HUD's general deputy assistant secretary for community planning and development require the State to develop and implement procedures to ensure that Community Development Block Grant disaster recovery funds will not be used for activities reimbursed by the Federal Emergency Management Agency, Small Business Administration, or any other program or source and maintain supporting documentation in its files.

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 discussed the finding with State and HUD officials during the audit. We provided a copy of the draft report to State officials on June 29, 2006, for their comments and discussed the report with the officials at the exit conference on July 10, 2006. The State provided its written comments to our draft report on July 7, 2006. The State concurred with our recommendation and has begun to take corrective action.

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

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BACKGROUND AND OBJECTIVES

In 2004, four hurricanes and tropical storms caused significant damage to many states including Florida. In response, Congress provided \$150 million in Community Development Block Grant funds for disaster relief, long-term recovery, and mitigation.¹ Congress appropriated the money for communities affected by disasters that occurred between August 31, 2003 and October 1, 2004, and covered by presidential disaster declarations. The U.S. Department of Housing and Urban Development (HUD) formally announced funding availability and statutory program requirements in the *Federal Register* (Volume 69, No. 237) on December 10, 2004.² HUD awarded \$49.1 million to eight states and Puerto Rico, and \$100.9 million to the State of Florida (State) for hurricane recovery efforts. The Florida Department of Community Affairs is responsible for administering the 2004 HUD Community Development Block Grant disaster recovery funds.

The *Federal Register* required the State to submit an action plan for disaster recovery that among other things identified the areas of greatest needs that had not been addressed by insurance proceeds, federal assistance, or any other funding source; described the overall plan for disaster recovery; and described the method of distribution of funds.

On April 11, 2005, HUD and the State executed a grant agreement and action plan. The action plan outlined the State's framework for allocating funding and indicated the funds would be used for repairs, long-term recovery, and mitigation related to the effects of the disasters. The action plan identified the 15 hardest hit counties eligible to receive funding. The allocation of funds was based on the State's compilation of hurricane damage assessment data from authoritative sources.

Once the action plan was approved by HUD, the State requested that all local governments within the 15 selected counties submit an application to receive funds. All applications were evaluated to ensure that funds would be used only for disaster relief, long-term recovery, and mitigation and that all activities meet one of the three national objectives from the Housing and Community Development Act. In addition, recipients were required to certify on the application that the disaster assistance would not be used for a project or activities reimbursable by the Federal Emergency Management Agency, available through the Small Business Administration, or available through other sources.

In August and September 2005, the State allocated \$98 million to 37 recipients. The State retained the remaining \$2.9 million for administrative costs and technical assistance. The State allocated a maximum cap of \$9 million to the seven hardest hit counties and a cap of \$4.375 million for the remaining eight counties. In total, the State awarded \$98 million for 125 projects

¹ The Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005 (Public Law 108-324 approved October 13, 2004)

² Federal Register Volume 69, No. 237, Waivers Granted to and Alternative Requirements for the Community Development Block Grant Disaster Recovery Grantees Under the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005; Notice.

in 15 counties and 22 cities. As of March 2006, approximately \$1.6 million had been disbursed to the recipients. Of 125 projects funded, only one has been completed.

Our objectives were to determine whether the State (1) awarded and disbursed disaster recovery funds in accordance with HUD requirements and (2) implemented adequate procedures for monitoring the projects financed by the disaster recovery funds.

RESULTS OF AUDIT

Finding 1: The State Lacked Adequate Procedures to Prevent Possible Duplicate Disaster Recovery Benefits to Recipients

The State did not have adequate procedures to prevent possible duplicate disaster recovery payments to recipients. Program files lacked evidence that the State verified whether recipients used disaster recovery funds for activities reimbursed by the Federal Emergency Management Agency, Small Business Administration, or other sources. As a result, the opportunity existed for a recipient to receive funding for the same activity from several sources. By developing and implementing additional verification procedures, the State may avoid possible duplicate payments.

Inadequate Procedures May Result in Duplicate Payments

HUD regulations and the action plan state that elements of activities that are reimbursable by the Federal Emergency Management Agency or available through the Small Business Administration cannot be undertaken with 2004 HUD Community Development Block Grant disaster recovery funds. In addition, recipients certify in their application and contract with the State that they will not be reimbursed by the Federal Emergency Management Agency, Small Business Administration, or any other program or source for the same activities.

The action plan indicates a substantial amount of funding will be provided to some of the recipients from other sources.

Program or Source	Amount
Small Cities Community Development Block Grant program	\$4,500,000
Small Cities Community Development Block Grant program income	1,400,000
Total amount	\$5,900,000

The State and/or recipients also received (or expect to receive) funds from the following sources:

Source	Amount
Florida Housing Finance Corporation	\$ 5,000,000
Federal Emergency Management Agency	300,000,000
Florida Legislature	3,500,000
Total amount	\$308,500,000

This large amount of other funding increases the risk that recipients may receive funding or reimbursement from more than one source for the same activities.

The Department of Community Affairs is responsible for administering the 2004 HUD Community Development Block Grant disaster recovery funds. Our review of program files for nine of 37 recipients found no evidence that the State verified whether the Community Development Block Grant disaster recovery funds were used for activities that may have been reimbursed by the Federal Emergency Management Agency, Small Business Administration, or any other source.

State officials concurred that they did not have adequate procedures to ensure that duplication of payments does not occur.

Conclusion

Due to the many natural disasters that have occurred in Florida during the past several years, it is generally perceived that numerous funding sources have provided assistance. The \$100.9 million provided by HUD for 2004 disaster recovery efforts is specifically earmarked to be used only for activities not reimbursed from other funding sources. The State did not develop a clear method to verify funding sources. Since the State has already disbursed about \$1.6 million to recipients, it is imperative that it quickly develop and implement procedures to ensure that HUD-funded projects are not reimbursed from other sources such as the Federal Emergency Management Agency or Small Business Administration.

Recommendations

We recommend that the general deputy assistant secretary for community planning and development require the State to

- 1A. Develop and implement procedures to ensure that Community Development Block Grant disaster recovery funds will not be used for activities reimbursed by the Federal Emergency Management Agency, Small Business Administration, or any other program or source and maintain supporting documentation in its files.

We also recommend that your office:

- 1B. Ensure the implemented procedures are operating as intended, and that supporting documentation is maintained in State files.

SCOPE AND METHODOLOGY

Our audit objectives were to determine whether the State (1) awarded and disbursed disaster recovery funds in accordance with HUD requirements and (2) implemented adequate procedures for monitoring the projects financed by the disaster recovery funds.

To accomplish our audit objectives, we did the following:

- Reviewed applicable laws, regulations, and program requirements;
- Interviewed HUD and Florida Department of Community Affairs staff;
- Reviewed the HUD-approved action plan, quarterly status reports, grant applications, contracts and grant agreements, program files, State audit reports; and
- Accessed and analyzed project information from various automated HUD and Florida systems.

State officials informed us that 37 recipients (counties and cities) received disaster recovery funds. According to the action plan, there were seven counties that each received \$9 million in disaster recovery funds. Using an analysis software program, we selected three counties for review. We also reviewed six cities within these three counties (total of nine recipients) that separately applied for disaster recovery funding. We limited our analysis of the remaining 28 recipients to a comparison of the contracts with the State to the action plan for approved activities and funding. In addition, we compared the funding balances among several State automated systems to ensure accurate reporting.

We conducted our fieldwork from February to April 2006 at the Florida Department of Community Affairs in Tallahassee, Florida, and the HUD Office of Community Planning and Development in Jacksonville, Florida. Our audit period was from December 10, 2004, through March 31, 2006.

We conducted the 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,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets.

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:

- Controls over program operations,
- Controls over the reliability of data,
- Controls over compliance with laws and regulations, and
- Controls over the safeguarding of assets.

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 State did not have adequate procedures to prevent possible duplicate disaster recovery payments to recipients (see finding 1).

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APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



STATE OF FLORIDA
DEPARTMENT OF COMMUNITY AFFAIRS
"Dedicated to making Florida a better place to call home"

JEB BUSH
Governor

THADDEUS L. COHEN, AIA
Secretary

July 7, 2006

Dear Mr. McKay:

Thank you for your letter dated June 29, 2006, regarding the recently conducted audit of the 2004 Community Development Block Grant Disaster Recovery Initiative. The Department appreciates the efforts made by your staff to conduct this audit at the "start up" phase of our Disaster Recovery Initiative (DRI). This early review will allow our staff the opportunity to take necessary corrective actions and implement procedures to ensure compliance with program requirements. Our response to the draft audit report's one finding is provided below.

Finding 1: The State Lacked Adequate Procedures to Prevent Possible Duplicate Disaster Recovery Benefits to Recipients

Response:

1. Members of the Department's staff met with HUD OIG on July 20, 2005, to discuss established risk assessment procedures and established monitoring and fraud prevention procedures. In addition, HUD OIG staff agreed to make presentations at the Department's DRI implementation workshops to 'set the tone' for appropriate use of funds and make grant recipients aware of the penalties resulting from any misuse of funds.

The Department pursued information on financial resources provided to DRI grant recipients by the Federal Emergency Management Agency (FEMA), the Small Business Administration (SBA), insurance providers, and other agencies during the early stages of program implementation. However, privacy concerns and the timing of application and award processes prevented access to comprehensive information. Therefore, it is necessary to rely on 'other resources' information provided by our grant recipients. Consequently, the 2004 DRI Action Plan and application form clearly state that the funds are not to be used to supplant other funding AND that their duplication of benefit will result in disallowed expenditures. Local governments were required to certify that no other funding was available to meet the particular need for which the funding was sought.

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Comment 1

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In addition, DRI contract management staff conduct a two-phased monitoring of each local governments' financial system. Phase-one, which is performed during the first six months of the local government's agreement period, verifies that CDBG funds, as well as other funds necessary for the completion of approved projects, have been incorporated into the local budget and verifies that the grantee has a financial record keeping system sufficient to maintain an audit trail. Phase-two monitoring, which is conducted after 30% or more of funds have been requested, serves to confirm that expenditures are in compliance with program requirements and verifies the audit trail through a sampling process. A final monitoring is conducted at close-out of the project.

Please also note that the Department's Inspector General's Office conducts a review of each grant recipient's annual audit, which will include the expenditure of DRI funds as well as other resources received by local government.

Comment 1

2. Direct beneficiaries are required to provide documentation of financial assistance received from other sources or certify that no other financial resources are available. In addition, grantees are required to have direct beneficiaries sign the FEMA "Authorization to Release Confidential Information" form, which is then processed to verify receipt of FEMA, SBA, insurance and any other disclosed financial resource.

Comment 1

3. The Department will review current written procedures to ensure all verification processes are documented.

Again, thank you for the opportunity to comment on this draft audit report. We look forward to receiving your assessment of this response and working with your staff to ensure that the State of Florida's verification process, to the greatest extent possible, prevents duplication of benefits.

Sincerely,



Thaddeus Cohen, AIA
Secretary
Florida Department of Community Affairs

TC/mln

OIG Evaluation of Auditee Comments

Comment 1

The State concurred with our recommendation and has begun to take corrective action. However, we recommend the State develop additional procedures to ensure that Community Development block grant disaster recovery funds will not be used for activities reimbursed by other sources.

Appendix B

CRITERIA

***Federal Register* Volume 69, No. 237 - Waivers Granted to and Alternative Requirements for Community Development Block Grant Disaster Recovery Grantees under the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005; Notice. December 10, 2004**

HUD used this notice to provide information about ways in which the requirements for this grant vary from regular Community Development Block Grant program rules. In addition, HUD used this notice to note the applicability of disaster recovery-related statutory provisions. Except as described in this notice for states, statutory and regulatory provisions governing the Community Development Block Grant program for states, including those at 24 CFR (*Code of Federal Regulations*) Part 570, Subpart I, shall apply to the use of these funds.

Applicable Rules, Statutes, Waivers, and Alternative Requirements

Paragraph 5(d) and (e)

Each grantee must submit to HUD an action plan for disaster recovery that describes a method of distribution and monitoring standards and procedures.

Paragraph 7

In addition to meeting a Community Development Block Grant national objective, activities funded under this notice must be related to disaster relief, long-term recovery, and mitigation in communities affected by presidentially declared disasters occurring between August 31, 2003, and September 30, 2004.

Paragraph 8

No entity may receive disaster recovery grant assistance with respect to any part of a disaster loss that is reimbursable by the Federal Emergency Management Agency or eligible for Small Business Administration assistance or for which it has received financial assistance under any other program or from insurance or any other source.