



U.S. DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL

December 12, 2016

Savannah Howell  
Office of Resilience and Innovation  
City of Tuscaloosa Alabama  
2201 University Blvd  
Tuscaloosa, AL 35401

Dear Ms. Howell

Enclosed is the discussion draft audit report on our review of the City of Tuscaloosa's Community Development Block Grant Disaster Recovery Funds. In accordance with our regular practice, we are forwarding the draft report to you for your review. The formal exit conference has been scheduled for Friday, December 16, 2016, at 10:00 am CST. The exit conference will be conducted via conference call. A conference call-in number will be provided. During the meeting we would like to discuss the results of our review and any comments you may have concerning this document.

The final audit report is subject to public release under the Freedom of Information Act. Therefore, you are encouraged to provide us with written comments for inclusion in the final report. We request that your written comments be provided to us within 15 calendar days from the date of this letter and be in electronic format. We will incorporate your written comments into the final report.

Officials who receive discussion draft audit reports for review are required to exercise due care to avoid premature or otherwise improper disclosure of the information contained in such reports. Draft reports may not be released without the express written approval of the Assistant Inspector General for Audit. Therefore, reproduction of the enclosed draft report without our knowledge or consent is prohibited.

If you have any questions, please contact Sonya D. Lucas, Assistant Regional Inspector General for audit, at (404) 331-3369, or at [slucas@hudoig.gov](mailto:slucas@hudoig.gov).

Sincerely,

A handwritten signature in black ink that reads "Nikita N. Irons". The signature is written in a cursive style with a large, stylized initial "N".

Nikita N. Irons  
Regional Inspector General for Audit

Enclosure

## NOTICE – USE RESTRICTED

This document, consisting of the attached pages 1 through 11, is a draft of a proposed audit report of HUD's Office of Inspector General. It is subject to revision, does not necessarily contain final conclusions, and is available only to officials responsible for its review and comment.

Recipients of this draft must not show or release its contents for any purpose other than review and comment. They must safeguard it to prevent premature publication or otherwise improper disclosure of the statements or information it contains. Reproduction of this draft without consent of the Office of Inspector General is prohibited.



The City of Tuscaloosa  
Office of Resilience and Innovation  
Tuscaloosa, AL

Community Development Block Grant Disaster  
Recovery Funds

Office of Audit, Region 4  
Atlanta, GA

Audit Report Number: 2016-XX-XXXX  
January XX, 2016

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**To:** Charles Franklin, Director, Community Planning and Development Division,  
Birmingham, AL 4CD

**From:** Nikita N. Irons, Regional Inspector General for Audit, 4AGA

**Subject:** The City of Tuscaloosa, AL Administered Its Community Development Block  
Grant Disaster Recovery Funds in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Tuscaloosa Alabama Community Development Block Grant Disaster Recovery funds.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.

**DRAFT**  
**For Discussion and Comment Only**  
**Subject to Review and Revision**



**Audit Report Number: 2016-XX-XXXX**

**Date: January XX, 2016**

**The City of Tuscaloosa Alabama Administered Its Community Development Block Grant Disaster Recovery Funds in Accordance with HUD Requirements**

## Highlights

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### What We Audited and Why

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We audited the City of Tuscaloosa, Alabama's Community Development Block Grant Disaster Recovery (CDBG-DR) grant. We selected the City for review because it was allocated more than \$43 million in funding to recover from the tornadoes of April 2011. Our audit objective was to determine whether the City of Tuscaloosa (1) ensured that only eligible projects were selected into the program, (2) ensured that funds were expended only for activities that were eligible and supported, (3) adequately monitored applicant activity and performance, (4) implemented adequate procedures and controls to prevent program participants from receiving a duplication of benefits, and (5) ensured procurement of goods or services was conducted with the applicable requirements.

### What We Found

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The City administered its CDBG-DR funds in accordance with HUD requirements. It ensured that eligible projects were selected, funds were spent for eligible activities, performance was adequately monitored, participants did not receive a duplication of benefits, and procurement of goods or services was conducted in accordance with applicable requirements. In addition, all activities were completed under the national objective of being located in a low- and moderate-income area.

### What We Recommend

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This report contains no recommendations.

**DRAFT**  
**For Discussion and Comment Only**  
**Subject to Review and Revision**

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# Background and Objectives

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The City of Tuscaloosa Alabama Office of Resilience and Innovation located in Tuscaloosa, AL, is responsible for administering the City's Community Development Block Grant Disaster Recovery (CDBG-DR) program, which is funded by the U.S. Department of Housing and Urban Development (HUD). The Office of Resilience and Innovation is under the oversight of the Offices of the Internal Auditor and the mayor to ensure proper administration and use of the funds, oversight, and support of the disaster recovery program. The Office of Resilience and Innovation works with multiple city offices to ensure that a project moves from conception to implementation while adhering to all applicable local, State, and Federal laws and regulations.

On May 29, 2013, HUD issued a Federal Register notice,<sup>1</sup> which advised the public of a second allocation of \$514 million in CDBG-DR funds appropriated by the Disaster Relief Appropriations Act of 2013.<sup>2</sup> The purpose of the allocation was to assist in the recovery of the most impacted and distressed areas declared a major disaster in 2011 or 2012. HUD allocated the City of Tuscaloosa Alabama more than \$43 million from this second allocation. The action plan identified the purpose of the City's allocation, including criteria for eligibility, and how its uses addressed long-term recovery needs. Specifically, funds would be used for housing, infrastructure, and economic development. As of June 1, 2016, HUD had approved grant agreements totaling more than \$32 million in funding from the \$43 million allocation, and the City had disbursed more than \$26 million. The Disaster Relief Appropriations Act of 2013 required the City to spend obligated funds within 2 years of the date of obligation.

Our audit objective was to determine whether the City of Tuscaloosa (1) ensured that only eligible projects were selected into the program; (2) ensured that funds were expended only for activities that were eligible and supported; (3) adequately monitored applicant activity and performance; (4) implemented adequate procedures and controls to prevent program participants from receiving a duplication of benefits; and (5) ensured procurement of goods or services was conducted in accordance with the applicable requirements.

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<sup>1</sup> 78 Federal Register 32263, dated May 29, 2013

<sup>2</sup> Public Law 113-2, dated January 29, 2013



# Results of Audit

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## **Finding: The City of Tuscaloosa Administered Its CDBG-DR Funds in Accordance With HUD Requirements**

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The City ensured that its CDBG-DR funding was administered in accordance with HUD requirements. Specifically, it ensured that (1) only eligible projects were selected in the program, (2) funds were expended only for activities that were eligible and supported, (3) it adequately monitored applicant activity and performance, (4) it implemented adequate procedures and controls to prevent program participants from receiving a duplication of benefits, and (5) procurement of goods or services was conducted in accordance with the applicable requirements.

### **Projects and Activities Were Eligible and Properly Supported**

We reviewed five projects (see appendix A) that received more than \$10 million in CDBG-DR funds. We reviewed each project file to determine whether the CDBG-DR funds were used for an eligible project and the activities were supported. All five projects were eligible to receive CDBG-DR funds because they were located in a presidentially declared disaster area. We reviewed each project's general ledger, invoices, and canceled checks to verify that all paid expenses were for eligible activities. The City's policies and procedures ensured that only eligible projects and activities were approved for assistance in accordance with all applicable State and Federal laws, regulations, and policies. Based on the City's policies and procedures, each project file had an eligibility determination sheet. The determination sheets listed general information about the project, as well as the national objective<sup>3</sup> met, eligible activity met, and the activity's relationship to the disaster.

### **Monitoring and Performance Was Adequate**

The City's policies and procedures for its CDBG-DR programs included procedures for scheduling, conducting, and closing out a monitoring review. The policy stated that monitoring involved the use of checklists to ensure financial and program compliance and a visit to the project site to ensure that the activities were carried out in accordance with the approved application. The checklists allowed the City to determine the recipient's compliance in areas such as citizen participation, meeting a national objective, eligibility, progress, disclosure, professional services, environmental reviews, fair housing and equal opportunity, bidding and

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<sup>3</sup> Under CDBG program rules, a grantee must meet one of three national objectives for each funded activity. The national objectives are (1) benefiting low-and moderate-income persons, (2) preventing or eliminating slums or blight, or (3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community, and other financial resources are not available to meet such needs.

contracting, labor, financial management, and record keeping. Upon completion of the monitoring visit, the City provided a letter to the recipient outlining the results of the monitoring review.

The City performed monitoring reviews on all five projects reviewed. The monitoring reviews were supported by the monitoring checklist and a copy the monitoring review letter that was issued. The City followed its policies and procedures by documenting each file with the monitoring review checklist and letter.

For the five projects reviewed, three were completed (Alberta Technology Center, Cedar Crest Drainage, and University Place/Forest Lake) and the City had closed out the projects. The City planned to close the remaining two projects.

### **Duplication of Benefits Did Not Exist for the Five Projects Reviewed**

The City's policies and procedures for duplication of benefits stated all duplicated funds were required to be repaid. The City completed a duplication of benefits worksheet to ensure that there was no duplication of benefits. The City's internal auditors signed and reviewed all worksheets and documentation to ensure there was no duplication of benefits. A duplication of benefits worksheet was included in the five project files that were reviewed.

### **Goods and Services Were Procured in Accordance With Applicable Requirements**

We reviewed procurement contracts for the five projects and determined the City followed procurement requirements of 24 (Code of Federal Regulations) CFR 85.36<sup>4</sup>. The City properly advertised and reviewed all bids; accepted the lowest, most responsible bid; and allowed for a competitive bid process. The City reviewed the winning contract (as well as change orders) for cost reasonableness by completing a cost analysis. The City properly solicited proposals, evaluated the contractors' qualifications and reviewed proposals for cost reasonableness. The City ensured the contract included all mandatory language, an adequate description of the scope of work, completion dates, payment schedules, and the appropriate signatures.

### **Conclusion**

The City had developed policies and procedures for its CDBG-DR program that complied with applicable HUD and Federal requirements. For the five projects reviewed, the City followed its policies and procedures and maintained documentation to ensure that only eligible applicants participated in the program, funds were spent for eligible activities, activities and performance were adequately monitored, participants did not receive a duplication of benefits, and procurement of goods or services was conducted in accordance with the applicable requirements.

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<sup>4</sup> 24 CFR 85.36 (c)(1)

# Scope and Methodology

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We performed our audit work between August and September 2016 at the City of Tuscaloosa, AL, and at our office in Atlanta, GA. Our review generally covered the period of January 2013 through July 2016.

To accomplish our objective, we

- Interviewed the City's staff to obtain an understanding of the controls significant to the audit objective and assist in our review of its files;
- Reviewed relevant background information;
- Reviewed the Disaster Relief Appropriations Act, Public Law 113-2;
- Reviewed 78 Federal Register 32262, dated May 29, 2013;
- Reviewed applicable laws, regulations, and relevant HUD program requirements to ensure the eligibility of projects;
- Reviewed organizational charts for the City of Tuscaloosa; its monitoring report, action plan, policies and procedures for CDBG-DR funds;
- Completed site visits for the five projects selected that received CDBG-DR funds;
- Reviewed the five projects general ledger, invoices and canceled checks to verify that all paid expenses were for eligible activities;
- Reviewed the five project files to ensure that adequate monitoring was completed and participants did not receive a duplication of benefits; and
- Reviewed procurement contracts for each project to ensure procurement requirements were followed in accordance with applicable requirements.

Our review focused on projects that had drawn the largest amounts in the Disaster Recovery Grant Reporting (DRGR) System<sup>5</sup>. There were a total of 20 projects that received CDBG-DR funds. As of June 1, 2016, the City has obligated more than \$29 million in its action plan and has drawn more than \$25 million in the DRGR System.

HUD's Birmingham Office of Community Planning and Development performed a monitoring review of the City during June 2015. From the projects not reviewed by HUD, we selected the five projects for review that had drawn the largest amounts in the DRGR System. The 5 projects selected for review totaled more than \$10 million or 41 percent from 20 projects (totaling more

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<sup>5</sup> DRGR is an online computer system for HUD staff and grantees. Grantees can use DRGR to create and approve vouchers to draw down funding as needed, submit information on activities funded under action plans and amendments, group and track activities by projects, and submit quarterly performance reports.

than \$25 million) based on DRGR draws as of June 1, 2016. The projects selected were Alberta Technology Center, Cedar Crest Drainage, McFarland Blvd/15t Street, Rosedale Phase III, and University Place/Forest Lake.

We reviewed each project file to determine whether the CDBG-DR funds were used for an eligible project and the activities were supported. We also reviewed the files to ensure that adequate monitoring was completed and there was no duplication of benefits. We reviewed each project's general ledger, invoices, and canceled checks to verify that all paid expenses were for eligible activities. All five projects were eligible to receive CDBG-DR funds because they were located in a presidentially declared disaster area. We reviewed each project and determined that there was no duplication of benefits. We reviewed procurement contracts for the five projects and determined the City followed procurement requirements of 24 CFR 85.36. The results of the sample review are attributable only to the specific items reviewed and cannot be projected to the universe of transactions.

To achieve our audit objective, we relied in part on computer-processed data. We used the data to select a sample of projects that had drawn the largest amounts in the DRGR System. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

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

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standard. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

# Appendixes

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## Appendix A

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### City of Tuscaloosa projects reviewed

Project no.	Project/Activities	Obligated in action plan	Drawn in DRGR
1	Alberta Technology Center: Infrastructure Project-Public Library	\$3,320,441	\$2,680,764
2	Cedar Crest Drainage: Infrastructure Project - Drainage Improvements	\$1,433,670	\$1,433,670
3	McFarland Blvd/15 <sup>th</sup> St.: Infrastructure Project-Road Improvements	\$1,900,000	\$1,861,518
4	Rosedale Phase III: 128 Public Housing Units	\$2,500,000	\$2,500,000
5	University Place/Forest Lake: Infrastructure Project-Pedestrian Walking Path	\$1,805,827	\$1,805,827
<b>Total</b>		<b>\$10,959,938</b>	<b>10,281,779</b>

## Appendix B

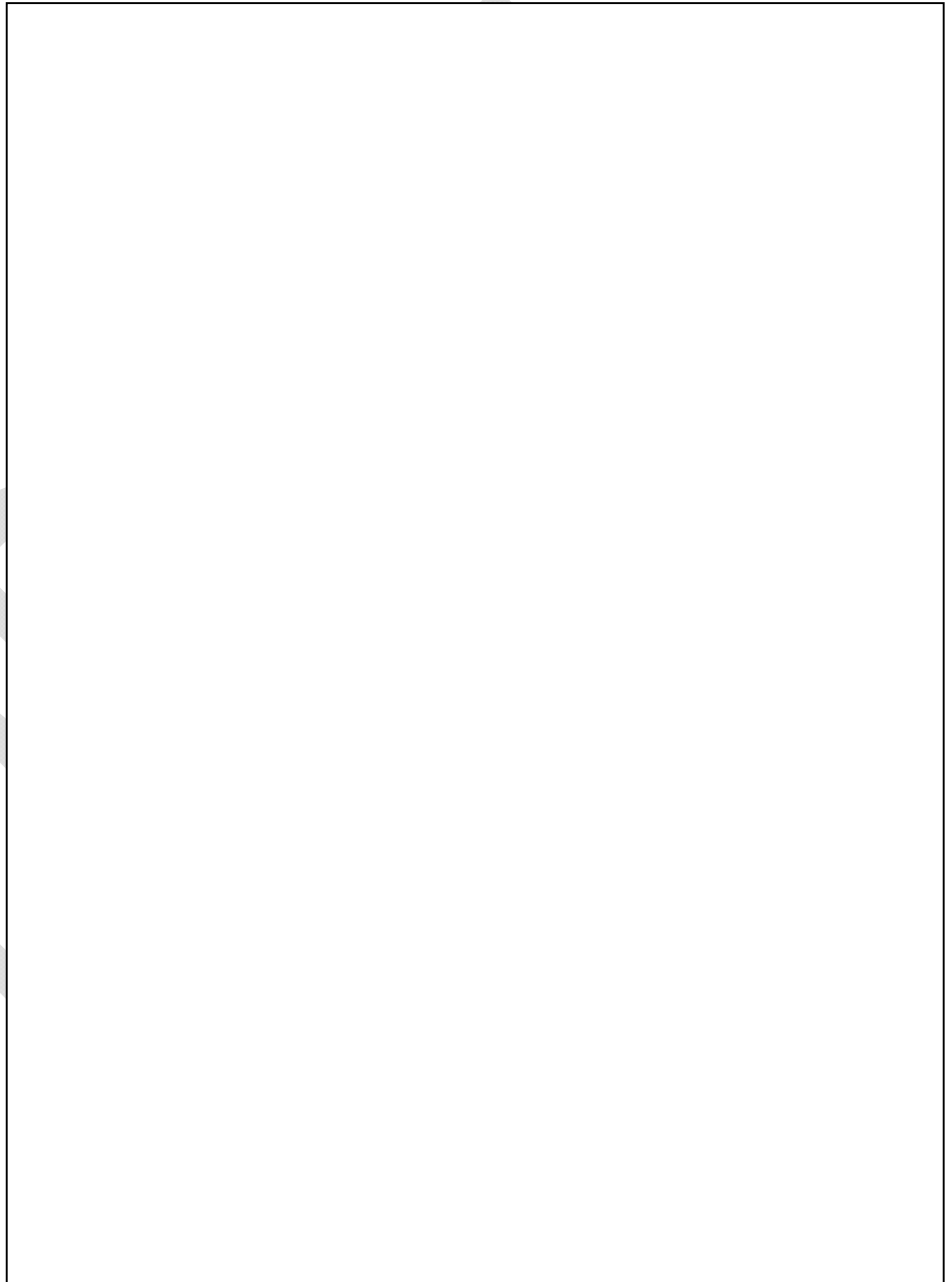
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### Auditee Comments and OIG's Evaluation

Ref to OIG  
Evaluation

Auditee Comments

Comment 1

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Comment 1 Evaluate each comment (as concisely as possible) referenced in the first part of this appendix where the comments are presented.

DRAFT