

*City of*  
*Gainesville*

*Inter-Office Communication*

February 21, 2002

TO: Audit and Finance Committee  
Mayor Thomas D. Bussing, Chair  
Mayor-Commissioner Pro Tem Pegeen Hanrahan, Member

FROM: Alan D. Ash, City Auditor *AD*

SUBJECT: Review of Block Grant

**RECOMMENDATION**

The Audit and Finance Committee recommend that the City Commission:

- 1) Accept the City Auditor's report and the City Manager's response; and
- 2) Instruct the City Auditor to follow-up on recommendations made and report the results to the Audit and Finance Committee.

**EXPLANATION**

In accordance with our Fiscal Year 2001 - 2002 Annual Audit Plan, we have completed our review of Block Grant. Our review was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our report and the City Manager's response are attached for your review.

We request the Committee recommend that the City Commission accept our report and the City Manager's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to follow-up on recommendations made and report the results to the Audit and Finance Committee.

December 3, 2001

TO: Wayne Bowers, City Manager  
FROM: Alan D. Ash, City Auditor *AA*  
SUBJECT: Review of Block Grant

On November 13, 2000 the City Commission approved the City Auditor's Annual Audit Plan which included a compliance review of the Block Grant Division of the Community Development Department. We conducted interviews with key personnel, reviewed operating and financial information and tested management controls. We have completed our review and prepared the attached report with recommendations for improvement in management controls.

In accordance with Commission Resolution 970187, Section 9(b), Report Processing Procedures, please submit your written response to the recommendations presented in the report within 30 days and indicate an actual or expected date of implementation. Our report and your response will then be submitted to the Audit and Finance Committee for review and approval.

We would like to thank Block Grant staff for their cooperation during our review. Our report has been reviewed with Jim Hencin, Block Grant Manager and Tom Saunders, Community Development Director. Please let me know if you have any comments or questions.

cc: Thomas Saunders, Community Development Director  
Jim Hencin, Block Grant Manager

**TABLE OF CONTENTS**

**Review of Block Grant**

EXECUTIVE SUMMARY ..... 1-2

SCOPE, METHODOLOGY AND OBJECTIVES .....2

SUMMARY AND BACKGROUND..... 2-5

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

1. Management Oversight of Monthly Reports Should be Strengthened.....6-7

2. Review of Agency Activity Reports Should be Strengthened.....8-10

3. Agency On-site Monitoring Should be Enhanced and More Consistent..... 11-12

4. City Departments Receiving Grant Funds Should Have Written Agreements.....13

5. Electronic Fund Transfers Should be Required for Agency Reimbursements.....14

6. Agencies Should Submit Adequate Documentation Prior to Reimbursement.....15

7. Management Oversight of Housing and Urban Development (HUD) Reports Should be Strengthened.....16

8. Block Grant Review of Agency Audited Financial Statements/Management Letters Should be Timely.....17-18

## EXECUTIVE SUMMARY

On November 13, 2000, the City Commission approved the City Auditor's Annual Audit Plan which included an operational review of Block Grant. The review focused on reviewing laws, policies, procedures and records necessary to determine that Community Development Block Grant (CDBG) and HOME funds are properly administered. Based on our review, we made recommendations in the following areas:

1. Several monitoring reports from some outside agencies contained inaccurate, incomplete or ineligible expenses. We recommend that management develop a system for ensuring a complete review of monthly reports by Block Grant staff prior to reimbursement.
2. Several outside agencies did not fully complete monthly activity reports. Additionally, we found significant deficiencies in agency activity reports. Block Grant should include a review of activity report completeness in the system recommended in #1 above.
3. We reviewed the agency on-site monitoring process performed by Block Grant and determined that monitoring is not consistent from staff to staff, and communication between Block Grant management and staff regarding outside agency monitoring procedures is not always clear. Also, agencies generating program income were not always reviewed on an annual basis.
4. In FY 2001, three City departments or divisions received block grant funding including Recreation and Parks, Public Works and Housing. These departments did not have executed agreements detailing responsibilities for monthly reporting, reimbursement processing, and preparation and distribution of activity reports to Block Grant.
5. Although many agencies use Electronic Fund Transfers (EFT) to receive reimbursements, some agencies do not. We recommend Block Grant require all agencies to have reimbursements direct deposited into agency accounts. Electronic Fund Transfers provide benefits in administrative efficiency and effectiveness.
6. Invoices submitted by agencies for reimbursement were not always adequate to ensure eligibility as an allowable expense. We also noted invoices submitted for items which did not indicate the project or program to be charged. We recommend Block Grant management take steps to ensure all supporting documentation submitted by agencies is legible and, if applicable, indicate the project or program to be charged.
7. A "Draw Down Report" is prepared each month which is electronically transmitted to HUD. The "Draw Down Report" is not forwarded to or reviewed by the Block Grant Manager prior to submission to HUD. We recommend Block Grant management include in the system recommended in #1 above the entry date and completion date of the draw down. The report should also be initialed and dated by Block Grant management as evidence of management/supervisory review.

8. We noted Block Grant had not reviewed agency audited financial statements for FY 2000. We recommend that Block Grant include in the system recommended in #1 a timely review of agency audited financial statements.

### **SCOPE, METHODOLOGY AND OBJECTIVES**

Our primary focus was to evaluate the system of management control currently in effect over Block Grants. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that goals are met. Management controls include the processes for planning, organizing, directing and controlling program operations. These include systems for measuring, reporting and monitoring program performance.

Our primary objective was to review management controls over CDBG and HOME Investment Partnership Program Grant funds. Our review was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We conducted interviews with appropriate Block Grant personnel and reviewed Housing and Urban Development policies. We also reviewed Block Grant agreements, monthly monitoring reports and reimbursements made to agencies and City departments receiving Block Grant funds. The scope of our testing was generally for the period October 2000 through June 2001. Based on the results of our review, we have prepared a report of findings, conclusions and recommendations.

### **SUMMARY AND BACKGROUND**

The City's Block Grant Division provides for the administration, distribution and oversight of Community Development Block Grant (CDBG) and HOME grant funds. Primary responsibilities include:

- Researching and applying for block grant funds to support neighborhood revitalization, affordable housing and core social services;
- Assisting City departments and outside agencies receiving CDBG and HOME funds in implementing projects in compliance with federal grant requirements;
- Assisting the Citizens Advisory Committee for Community Development (CACCD) in reviewing and making recommendations on CDBG and HOME projects; and
- Completing CDBG and HOME Annual Performance Reports for submission to the U.S Department of Housing and Urban Development (HUD), and preparing Consolidated/Annual Plans for CDBG and HOME funding.

Block Grant administers CDBG and HOME grant programs awarded on an annual basis. CDBG and HOME grants are separate and distinct HUD programs administered by Block Grant. A brief background of each program follows.

The Community Development Block Grant (CDBG) program was authorized under Title I of the Housing and Community Development Act of 1974. CDBG emerged from the consolidation of eight other programs under which communities competed nationally for funds. Recipients of CDBG funds include local governments in several categories. The City of Gainesville qualifies based on the Entitlement Program which requires a population over 50,000 to be eligible. Participating local governments receive

an annual allocation of CDBG funds based on grant funds appropriated by Congress. The primary objective of Title I of the Housing and Community Development Act of 1974 is the development of viable urban communities.

Activities for which CDBG grants may be applied include:

- Public facilities and improvement including acquisition, installation and construction of infrastructure;
- Public services including job training and employment services, health care, substance abuse programs, fair housing counseling; and
- Rehabilitation activities of residential, low income public housing or publicly or privately owned commercial or industrial buildings.

The HOME program was created by the National Affordable Housing Act of 1990 to provide affordable housing to lower income households, expand the capacity of non profit housing providers, strengthen the ability of state and local governments to provide housing and leverage private sector participation. HOME funded activities may include homeowner rehabilitation and home buyer construction.

CDBG and HOME grants have no limitations on their use with other private, local, state and federal funds. Each year, the City is notified by HUD of funds available for CDBG and HOME programs.

Block Grant received a total of \$2,359,000 for FY 2001 from HUD for CDBG and HOME funded programs. The percentage distribution of CDBG and HOME program funds is illustrated in Figure 1.

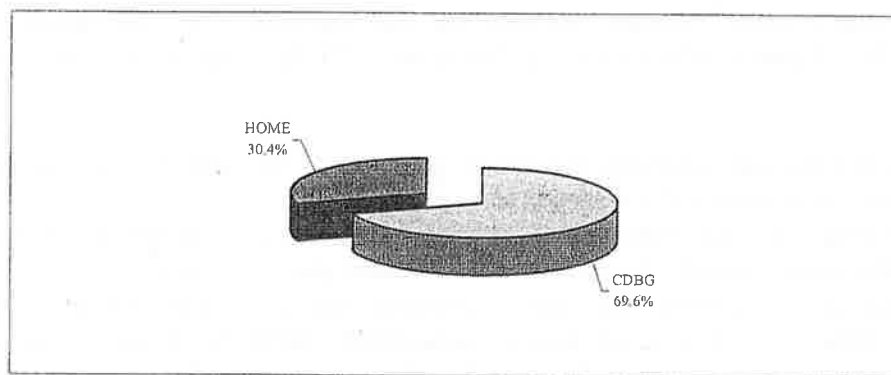


Figure 1: FY 2001 CDBG & HOME Grant Distribution

The CDBG allocation of \$1,642,000 and HOME grants allocation of \$717,000 were divided among 21 outside agencies and 4 City departments. Figure 2 represents the agencies included in our sample testing of Block Grant review and oversight over CDBG and HOME grants.

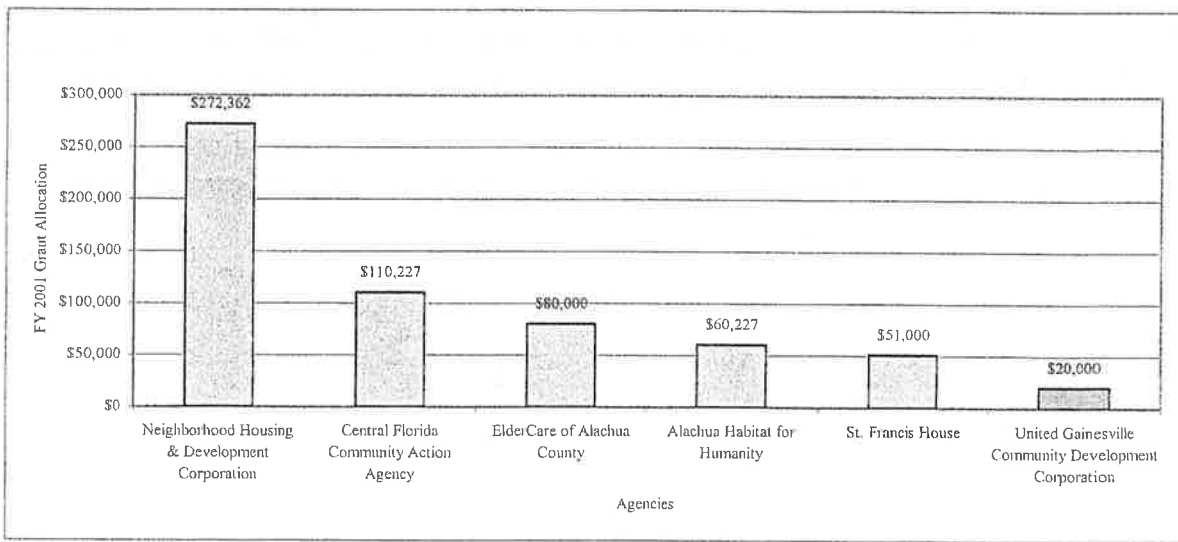


Figure 2: Agencies Included in City Auditor's Testing and Related Grant Allocations FY 2001

We also tested Block Grant review and oversight of City departments receiving CDBG and/or HOME grant funds. Figure 3 depicts City departments receiving CDBG and/or HOME funds and related FY 2001 allocations.

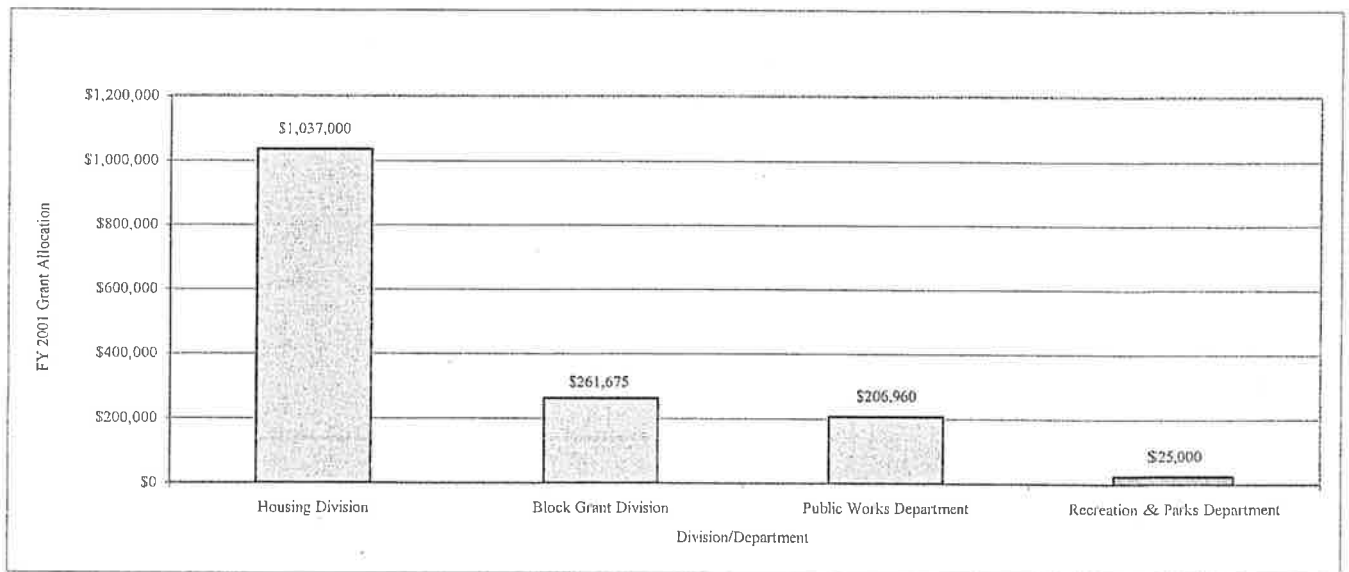


Figure 3: City Departments Receiving FY 2001 CDBG & HOME Allocations

Each year Block Grant notifies agencies of the application process and information required to receive CDBG and/or HOME grant funds. Applicants present applications and presentations to the Citizens Advisory Committee for Community Development (CACCD). Once this process is complete, the CACCD recommends agencies and proposed funding levels to the City Commission. Each agency enters into a written agreement with Block Grant stating requirements for compliance with funding requirements. This includes monthly or quarterly reporting of all program activities including appropriate documentation. Block Grant as part of the grant administration process is responsible for

examining information and material provided as a means for tracking performance and identifying potential problem areas. Through these monthly reviews Block Grant makes inquiries of the agency or requests additional information if progress, compliance or financial information is not adequate.

Block Grant also performs periodic on-site monitoring visits of outside agencies and City departments to review systems in place to ensure proper administration and oversight over the agency or department.



**MANAGEMENT OVERSIGHT OF MONTHLY REPORTS SHOULD BE STRENGTHENED**

**Finding**

During our review of monthly monitoring reports received from agencies receiving CDBG and/or HOME funds, we noted several reports that contained inaccurate, incomplete or ineligible expenses. We reviewed six outside agencies and three City departments receiving funding.

Monthly reports are required by written agreement. The agreement requires reports submitted by each agency to include the following information:

- A financial report indicating approved budget, amounts previously reimbursed, current expenditures during the period and year to date, and uncollected revenues appropriately classified.
- Invoices, billing statements, cancelled checks and timesheets supporting expenses incurred.
- Activity reports indicating monthly and year to date activity related to the scope and schedule of services indicated in the agreement.
- Certification by agency Executive Director related to the accuracy of the report.

Monthly reports are due 20 days after the end of the previous month. Monitoring reports are reviewed and verified by a Block Grant analyst to determine the reasonableness and adequacy of information submitted. Any follow up is performed by the analyst or the Block Grant Manager for additional information prior to payment. We found the following areas of concern related to monitoring reports:

- A City department failed to submit monthly reports on a timely basis and these reports were not followed up by Block Grant management.
- We noted instances where reimbursements were made for ineligible expenses. CDBG funds may be revised and allocated for additional expenses by up to 10% of the original budget upon notification to Block Grant. However, expenses approved and reimbursed did not comply with notification requirements.
- Monthly reports included expenses paid by Block Grant for international telephone calls and duplicate invoices submitted for reimbursement that were not investigated by Block Grant prior to approval.
- For one agency, we were told that monthly reports were not reviewed thoroughly because of an expectation that it would be reviewed in more detail during the next phase of review.

## **Conclusion**

Agency reports were not thoroughly reviewed prior to reimbursement.

## **Recommendation**

We recommend management develop a system for ensuring a complete review of monthly reports prior to reimbursement. The system should include, at a minimum, sufficient detail of each review step to ensure a complete and proper verification of all items submitted for reimbursement by all staff responsible for the review process. The system developed should record all steps completed in the review process including a complete review of supporting documentation.

Management should also review activity reports provided by agencies and ensure that monthly and year to date totals are consistent with the agreed upon scope of services. Steps completed by staff or management should be initialed and dated to assist in analyst review and accountability.

## **Management Response**

Block Grant staff will expand the current review system for monthly reports to ensure a complete verification of all items submitted for reimbursement, as well as a review of activity reports for consistency with the agreed upon scope of services. Current checklists will be expanded to include sufficient detail to record each review step completed by the responsible staff members. These review system improvements will be completed and implemented by March 2002.

<b>REVIEW OF AGENCY ACTIVITY REPORTS SHOULD BE STRENGTHENED</b>
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**Finding**

During our review of outside agency files, we noted two primary concerns regarding agency activity reports. Activity reports indicate progress made on a monthly and year to date basis including number of persons/households assisted, gender, income level and other measurable units. An activity report provides progress made by an agency based on the scope of services provided by the agency during the application process. Activity reports are used by Block Grant to monitor agency performance. Most agencies receiving grant funds maintain a specific number of projects, meals, persons/households or related measurable performance goal for which they are held accountable.

When agencies submit monthly reports for expense reimbursement an activity report is included. As part of Block Grant's review process, the activity report is analyzed to ensure accuracy, completeness and the status of activities in relation to stated goals. If an agency has not sufficiently completed the activity report or progress on performance is not as expected, Block Grant notifies the agency of deficiencies and requests an explanation. Receipt of a complete activity report is part of the requirement for receiving reimbursement for expenses from Block Grant.

We noted several activity reports from agencies reviewed that were not complete. Examples of information not provided on reports included year to date totals, gender and income level. Other activity report deficiencies included the following:

- In one agency report, we noted that activity reports submitted for October through January were identical with no changes in the year to date total or the percentage of services completed to date. Additionally, activity reports submitted between February and May had only the monthly portion completed and omitted year to date totals. The agency was reimbursed for expenses each month without a correction or revision to inaccurate or incomplete activity reports.
- Another agency receives three separate grants from Block Grant. Two of the grants are related to housing and renovations and the agency activity report submitted provided the required information on these programs and was consistent with the scope of services in the agreement. The third grant provides for a \$25,000 commodities program. The contract indicates that this grant is used for bi-monthly distribution of commodity food items and states "...an average of at least 1000 *households per month* (emphasis added) will be served during the 12 month period of this agreement."

The FY 2000 agency contract states "1200 households shall be served on a monthly basis." Activity reports submitted to Block Grant indicate the agency did not meet the FY 2000 criteria. The FY 2001 agency agreement stipulated "1000 households per month" to be serviced. Activity reports submitted indicated that FY 2001 levels were also not complied with.

Table 1, on the following page, indicates total households serviced each month based on activity status reports submitted during the past two fiscal years.

We discussed performance goals with agency and Block Grant management. The agency indicated that contract language should have stated “persons” not “households” and “bi-monthly” instead of “monthly”. Block Grant management indicated that language in the contract was correct in stating “households” but should have stated “bi-monthly” instead of “monthly”. We noted no documentation in the file indicating performance standards should be reviewed using different standards than those stated in the contract.

	# in FY 00	# in FY 01
October	0	0
November	741	0
December	200	0
January	1104	832
February	0	0
March	1200	0
April	0	776
May	761	850
June	0	0
July	827	932
August	0	0
September	849	1044

Table 1: COMMODITIES GRANT HOUSEHOLDS SERVED in FY 2000 & FY 2001

The examples noted above appear to indicate that staff is reviewing to ensure the inclusion of appropriate forms but not for substance.

Reviewing activity reports to ensure agency compliance with contractual requirements is a vital internal control to ensure proper use of agency grant funds. The accuracy and completeness of those reports is also important as they are used to determine future funding in subsequent years.

**Conclusion**

Block Grant is not reviewing all activity reports for substance (i.e. completeness, accuracy, currency, and performance). Also some agency agreements may not accurately reflect appropriate performance measures.

**Recommendation**

We recommend that Block Grant include in the Quality Control System recommended in #1, a mechanism for ensuring a complete review of agency activity reports. Management should also ensure that agency agreements accurately reflect the scope of services provided and use those measurements when analyzing performance. In the event an agency continues to provide inaccurate and/or incomplete activity reports or service levels do not comply with contract provisions, no further expense reimbursements should be processed until deficiencies have been remedied.

### **Management Response**

Block Grant staff will expand the current review system for monthly reports to ensure a complete verification of all items submitted for reimbursement, as well as a review of activity reports for consistency with the agreed upon scope of services. Current checklists will be expanded to include sufficient detail to record each review step completed by the responsible staff members. These review system improvements will be completed and implemented by March 2002.

<b>AGENCY ON-SITE MONITORING SHOULD BE ENHANCED AND MORE CONSISTENT</b>
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**Finding**

We reviewed the agency monitoring process performed by Block Grant. Monitoring is performed by Block Grant staff on a rotational basis. Agencies are selected for monitoring using an informal risk assessment based on whether the program is a new CDBG/HOME recipient, turnover of key positions or previous compliance or performance problems among other considerations. Monitoring efforts are judgmental and vary and may consist of detailed analysis of records and documentation or Block Grant may narrow the scope of review to one segment of an agency. Monitoring reviews are performed to ensure that adequate controls are in place and that documentation supporting expenses is maintained.

In FY 2000, 25 agencies received CDBG and/or HOME funding. Of these agencies, 15 were scheduled for on-site monitoring. Eleven of 15 scheduled received an on-site visit. One of the four not visited was an agency receiving program income. In FY 2001, 21 agencies received CDBG and/or HOME funding and 16 were scheduled for monitoring. All 16 agencies were reviewed, however one of the agencies not scheduled for a site visit received program income.

We accompanied Block Grant staff on four on-site monitoring visits. Block Grant staff was professional and organized prior to and during visits with each agency. Prior to each visit Block Grant management notified the agency in writing of the date, time and areas to be reviewed by staff. On a few of our site visits, agency staff directed inquiries to Block Grant staff that could not be answered or agency staff indicated that a different answer was previously received from Block Grant management or staff. In some cases, Block Grant staff was not aware of previous information given by Block Grant management regarding a procedure or documentation requirements.

**Conclusion**

Procedures conducted during agency monitoring visits are not consistent and communication between Block Grant management and staff regarding outside agency procedures is not clear. Also, agencies generating program income do not appear to receive annual on-site visits.

**Recommendation**

Block Grant management should ensure that staff is informed of discussions regarding documentation requirements and policies and procedures agreed upon between Block Grant and agencies. Outside visits could be facilitated by prior verbal notification to an agency's director of general areas agency staff should be prepared to discuss prior to the visit. This should eliminate confusion or contradictions that may arise during visits.

Additionally, Block Grant management should include all program income agencies in the annual monitoring plan. Program income agencies have greater risks associated with documentation requirements and controls needed than agencies not generating program income.

### **Management Response**

Block Grant management will ensure that staff is fully aware of documentation requirements and policies and procedures for agencies prior to conducting on-site monitoring visits. The current Block Grant procedure is to schedule each monitoring visit by telephone and confirm each appointment by letter. To facilitate future monitoring visits, staff will confirm the visits with the appropriate agency staff immediately before making the visit. In addition, all agencies that generate program income will be included in each annual Block Grant monitoring plan beginning in 2002.

<b>CITY DEPARTMENTS RECEIVING GRANT FUNDS SHOULD HAVE WRITTEN AGREEMENTS</b>
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**Finding**

Block Grant requires an executed written agreement between the City and outside agencies receiving grant funds. This agreement outlines the responsibilities of the agency including submission of monthly/quarterly reports, activity reports, providing adequate documentation for reimbursements, and specifies performance measures used to ensure goals are met.

During our review, we noted three City departments or divisions receiving FY 2001 Block Grant funding including Recreation and Parks, Public Works and Housing. These departments were not required to have an executed written agreement. During our review, we noted that the Housing Division submitted monthly reports indicating activities performed and provided documentation supporting reimbursements. Public Works provided three quarterly reports for FY 2001 however, documentation supporting reimbursements was not provided. Recreation and Parks did not provide a first quarter report and the second and third quarter reports were submitted simultaneously.

Block Grant management indicated that City information was easily accessible and for that reason, it was not necessary to require each department to submit reports or documentation. Block Grant cannot monitor scope of services, service levels, and ensure proper use of funds without required reports, information and documentation. Furthermore, in the event a department received grant funds for ineligible expenses because of lack of oversight, the City could be held accountable for non-compliance with HUD requirements.

**Conclusion**

Agreements outlining reporting and documentation requirements and agreed upon performance measures do not exist for City departments receiving CDBG or HOME grants.

**Recommendation**

We recommend that Block Grant and City departments execute written agreements regarding CDBG and/or HOME grant funds received. Agreements should outline reporting and documentation requirements, as well as agreed upon performance measures.

**Management Response**

Block Grant staff is currently reviewing written interdepartmental agreements utilized in other communities. After this review is complete, the Block Grant staff will make a recommendation to the Community Development Director and the City Manager. The City Manager will decide by April 2002 whether to require written agreements between Block Grant and City departments. As an alternative, the City Manager may institute other internal measures to insure compliance with CDBG and HOME requirements by City departments.



**ELECTRONIC FUND TRANSFERS SHOULD BE REQUIRED FOR AGENCY  
REIMBURSEMENTS**

**Finding**

We noted that although many agencies use Electronic Fund Transfers (EFT) to receive reimbursements, some agencies do not. Not-for-profit agencies often have high staff turnover and/or volunteers performing complex technical duties, as well as limited resources to ensure proper separation of duties. EFT's decrease the risk of inaccurate data entry and misappropriation of funds.

Block Grant management has offered EFT as an option, but it is not currently required.

**Conclusion**

Some agencies do not use EFT for CDBG/HOME expense reimbursements.

**Recommendation**

We recommend that Block Grant include in written agreements a provision requiring grant funds be electronically transferred into an agency's account. This provides the City and agency with assurance that funds are properly received and reduces the potential for misappropriation of funds.

**Management Response**

Block Grant staff has contacted each agency that does not currently utilize electronic fund transfers to receive reimbursements. All but one agency has agreed to convert to the electronic fund transfer system. The remaining agency (Girl Scouts) has asked to continue mailing reimbursements because electronic transfer deposit confirmation would be sent to the agency's headquarters in Jacksonville, causing a delay in payment confirmation. Block Grant staff will honor this request, but will continue to work with this agency in an effort to convert to electronic fund transfer in the future.

**AGENCIES SHOULD SUBMIT ADEQUATE DOCUMENTATION PRIOR TO REIMBURSEMENT**

**Finding**

During our review of agency monthly reports, we noted invoices submitted by agencies for reimbursement were not always legible. Documentation received from outside agencies for reimbursement of expenses must be legible and clearly understood in order to qualify as adequate documentation. Additionally, we noted one agency submitted invoices for expenses that did not indicate the project or program to which the expense was applied.

Block Grant reviews invoice totals and ensures that funds submitted agree to requested amounts and are eligible for reimbursement. Invoices and additional items of support are validated as part of the monthly monitoring process to ensure contract compliance and to ensure adequate documentation exists to support the reimbursement request.

**Conclusion**

Supporting documentation is not always legible or properly classified.

**Recommendation**

We recommend Block Grant management take steps to ensure that documentation submitted by agencies is legible and, if applicable, properly classified. In the event supporting documentation is not adequate, the agency should be notified to provide clarification or resubmit the request with documentation sufficient to support the request.

**Management Response**

The review system improvements cited in the management response to Finding #1 should ensure that legible, properly classified documentation is submitted by agencies. This component of the review system has already been implemented by Block Grant staff.

<p style="text-align: center;"><b>MANAGEMENT OVERSIGHT OF HOUSING AND URBAN DEVELOPMENT (HUD) REPORTS SHOULD BE STRENGTHENED</b></p>
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**Finding**

Block Grant provides monthly reports to HUD on reimbursements provided for grant funds awarded. Draw downs are entered into the Integrated Disbursement Information System (IDIS) which maintains a connection to a HUD database. Information is entered by a Block Grant analyst and includes the grantee, date of grant, funds drawn and funds remaining. HUD uses this information as the basis for monitoring progress and grant usage. A Block Grant analyst prints a "Draw Down Report" and maintains a file copy.

We noted during our review that a Block Grant analyst performs this function as time permits and generally on a monthly basis. The "Draw Down Report" is not forwarded to or reviewed by the Block Grant Manager.

The Block Grant Manager indicated online access to IDIS to review draw down activity is available, however, there is no written record that the Block Grant Manager has reviewed draw down information submitted to HUD to ensure oversight of the process.

**Conclusion**

Evidence to support Block Grant management's receipt and review of IDIS monthly reports does not exist.

**Recommendation**

We recommend Block Grant management include in the development of the system recommended in #1 a review of IDIS monthly reports by management. Additionally, the "Draw Down Report" should be initialed and dated by Block Grant management to indicate supervisory review of the HUD reporting process.

**Management Response**

As part of the overall improvement of the internal review system cited in the management response to Finding #1, Block Grant staff will include a procedure for review of monthly IDIS reports and sign-off by Block Grant management. This procedure will be implemented by January 2002.

<p style="text-align: center;"><b>BLOCK GRANT REVIEW OF AGENCY AUDITED FINANCIAL STATEMENTS/MANAGEMENT LETTERS SHOULD BE TIMELY</b></p>
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**Finding**

Outside agencies receiving CDBG and HOME funds are required to submit audited financial statements and management letters no later than seven months after the fiscal year end. Block Grant reviews audited financial statements and related management letters for financial and compliance issues noted during the audit. Upon completing Block Grant's review, financial statements are forwarded to the Finance Department for additional review and returned. The Finance Department review ensures that financial statements comply with reporting requirements, standards and federal criteria for audits conducted under the Single Audit Act. If an agency fails to submit audited financial statements and a related management letter, future agency funding is at risk.

We noted Block Grant had not reviewed FY 2000 audited financial statements or ensured that management letters were included. We reviewed FY 1999 audited financial statements and management letters to determine whether follow up on issues of concern were performed. FY 1999 audited financial statements and management letters were reviewed by the Finance Department, however issues of concern were not forwarded to Block Grant for follow up. The Finance Department indicated that if FY 2000 audited financial statements and management letters were forwarded by Block Grant, issues of concern would not have been returned to Block Grant for follow up.

Block Grant does not maintain a "tickler" system to indicate when audited financial statements and management letters are transmitted to the Finance Department for follow up on issues identified by the Finance Department. Additionally, follow up on items checked as incomplete by the Finance Department is not performed. According to management, financial statements received during the current fiscal year were not reviewed by Block Grant as the review process was not considered a high priority in relation to other required duties.

**Conclusion**

FY 2000 audited financial statements and management letters were not reviewed by responsible department staff. Appropriate follow up was not taken on issues identified in the FY 1999 audited financial statements and management letters.

**Recommendation**

We recommend that Block Grant include in the system recommended in #1, a timely review of audited financial statements and related management letters. The system should include a mechanism for tracking the distribution and return to and from appropriate departments and provide evidence that review and follow up took place.

**Management Response**

Block Grant staff will develop a mechanism for tracking the timely review of audited financial statements from agencies and their related management letters between the Block Grant Division and Finance Department. This mechanism will be developed and implemented by February 2002.

