The State of Missouri

Community Development Block Grant Disaster Recovery Program

Office of Audit, Region 7
Kansas City, KS

Audit Report Number: 2016-KC-1001
February 22, 2016

To: Dana Buckner, Director, Kansas City Office of Community Planning and Development, 7AD

//**signed**//

From: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

Subject: The State of Missouri Did Not Correctly Allocate Salaries to Its Disaster Recovery Grants

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 State of Missouri's Community Development Block Grant Disaster Recovery program.

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 913-551-5870.

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The State of Missouri Did Not Correctly Allocate Salaries to Its Disaster Recovery Grants

Highlights

What We Audited and Why

We audited the State of Missouri's Community Development Block Grant (CDBG) Disaster Recovery program because it was initially awarded more than $103 million in two CDBG Disaster Recovery grants for storms and flooding that occurred in 2008. We had not previously audited the State's activities regarding these funds. Our audit objective was to determine whether the State adequately supported salary distributions for its Disaster Recovery grants.

What We Found

The State did not correctly allocate salaries to its Disaster Recovery grants. It distributed salaries to its grants by using distribution percentages based on project listings and employee feedback instead of requiring employees to report their individual activities on their timesheets, which would have enabled it to determine the actual amount of time spent on each activity.

What We Recommend

We recommend that the Director of the Kansas City, KS, Office of Community Planning and Development (1) require the State to support more than $1.2 million in unsupported salary costs for the B-08-DI-29-0001 Disaster Recovery grant or reimburse HUD from non-Federal funds any portion of that amount that it cannot support, (2) require the State to support $279,362 in unsupported salary costs for the B-08-DF-29-0001 Disaster Recovery grant or reimburse HUD from non-Federal funds any portion of that amount that it cannot support, (3) require the State to implement a detailed payroll tracking system to ensure that only salaries incurred in administering the Disaster Recovery program are charged to its Disaster Recovery grants, (4) ensure that the State receives training on salary distribution methods and documentation requirements for Federal grants, and (5) monitor the State to ensure that it establishes and implements a new time-keeping system.

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Background and Objective

The Missouri Department of Economic Development, Business and Community Services Division, manages the Community Development Block Grant (CDBG) and CDBG Disaster Recovery programs. The Business and Community Services Division's main offices are located at 301 High Street, Jefferson City, MO.

In 2008, parts of Missouri witnessed various weather-related disasters, including severe flooding and tornadoes. There were six presidentially declared disasters in Missouri covering all but 8 of the 114 counties within the State. At least 3,892 homes were impacted by weather-related events in 2008, with 1,839 being affected in some way, 1,488 sustaining minor damage, 320 sustaining major damage, and 245 being destroyed. Also, 22 levees were affected by flooding. Finally, there was widespread damage to the public infrastructure reported by communities and regional planning commissions.

The U.S. Department of Housing and Urban Development (HUD) initially awarded the State more than $11 million in disaster relief funds through the Supplemental Appropriations Act, 2008 (Public Law 110-252). Nationwide, the Act made up to $300 million in CDBG funds available for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure and housing in areas covered by a 2008 major declaration of disaster.

HUD also awarded the State more than $92.6 million through the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (Public Law 110-329). This Act provided $6.5 billion nationwide in CDBG funds for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in areas affected by hurricanes, floods, and other natural disasters occurring during 2008, for which the President declared a natural disaster. Also, HUD awarded the State an additional $5 million through CDBG supplemental funding under Public Law 110-329.

HUD signed the $11 million funding approval for the State on May 21, 2009, and the State signed it on May 27, 2009. For the $92.6 million CDBG Disaster Recovery grant, HUD signed the funding approval on November 27, 2009, and the State signed it on November 30, 2009. For the additional $5 million, HUD signed the funding approval on February 16, 2011, and the State signed it on February 18, 2011. The Disaster Recovery activities include clearance and demolition, debris removal, acquisition and construction of public facilities, street repair, new housing, rehabilitation and reconstruction of residential houses, acquisition buyout, relocation assistance, and economic development.

Our audit objective was to determine whether the State adequately supported salary distributions for its Disaster Recovery grants.

Results of Audit

Finding: The State Did Not Correctly Allocate Salaries to Its Disaster Recovery Grants

The State did not correctly allocate salaries to its Disaster Recovery grants. This deficiency occurred because the State was not aware of the specific guidance outlined in the Code of Federal Regulations (CFR) regarding salary distribution documentation. As a result, HUD lacked assurance that the State properly used more than $1.5 million to administer its Disaster Recovery projects.

The State Did Not Correctly Allocate Salaries to Its Disaster Recovery Grants

The State distributed salaries to its grants by using distribution percentages based on project listings and employee feedback instead of requiring employees to report their individual activities on their timesheets, which would have enabled it to determine the actual amount of time spent on each activity. Federal regulations at 2 CFR Part 225, appendix B, paragraph (8)(h), require that employees who work on multiple activities or cost objectives have a distribution of their salaries or wages be supported by personnel activity reports or equivalent documentation. It also requires these reports or equivalent documentation to reflect an after-the-fact distribution of the actual activity worked on, account for the total activities for which an employee is compensated, be prepared at least monthly, and be signed by the employee.

From June 2010 through September 2012, the State used the same salary distribution percentages for its employees working on the Disaster Recovery grants. In October 2012, it began to allocate salary distribution percentages for individual employees, but it still assigned these percentages based on project listings and employee feedback.

The State assigned its Disaster Recovery program salaries to two administrative expenditure accounts, and those salaries accounted for the majority of the costs. The State could not support the salaries it allocated to the administrative expenditure accounts for the B-08-DI-29-0001 and B-08-DF-29-0001 Disaster Recovery grants. The salaries for the two grants totaled more than $1.2 million and $279,362, respectively. Overall, these salaries totaled more than $1.5 million.

The table below shows the year, Disaster Recovery grant, and salary expenses.

Year*	B-08-DF-29-0001 grant salary expenses	B-08-DI-29-0001 grant salary expenses
2010	$36,824	$3,968
2011	$85,845	$118,472
2012	$47,320	$279,587
2013	$51,885	$259,781
2014	$45,482	$295,243
2015	$12,006	$305,725
2016	$0	$9,518
Totals	**$279,362**	**$1,272,294**

*The State's fiscal year is July 1 through June 30.

The State Was Not Aware of the Specific Guidance Regarding Salary Distribution Documentation

During our audit, State officials told us that they were not aware of the specific guidance outlined in 2 CFR Part 225, dealing with the required salary distribution documentation. As a result of our review, the State implemented changes in its payroll system so its employees could submit their own activity codes to help track the time charged to Federal awards.

HUD Lacked Assurance That the State Properly Used More Than $1.5 Million

The only accurate way to allocate salaries to individual grants is to allocate the costs based on the actual amount of time staff spends working on each grant. Because the State based the allocations on project listings, HUD lacked assurance that the State properly used more than $1.5 million in salary costs to administer its Disaster Recovery projects and, therefore, may not have had funds available for other projects.

Recommendations

We recommend that the Director of the Kansas City, KS, Office of Community Planning and Development

1A. Require the State to support $1,272,294 in unsupported salary costs for the B-08-DI-29-0001 Disaster Recovery grant or reimburse HUD from non-Federal funds any portion of that amount that it cannot support.

1B. Require the State to support $279,362 in unsupported salary costs for the B-08-DF-29-0001 Disaster Recovery grant or reimburse HUD from non-Federal funds any portion of that amount that it cannot support.

1C. Require the State to implement a detailed payroll tracking system to ensure that only salaries incurred in administering the Disaster Recovery program are charged to its Disaster Recovery grants.

1D. Ensure that the State receives training on salary distribution methods and documentation requirements for Federal grants.

1E. Monitor the State to ensure that it establishes and implements a new time-keeping system.

Scope and Methodology

To accomplish our audit objective, we

- Interviewed HUD's Kansas City, KS, Office of Community Planning and Development management and staff;
- Interviewed the State's management and staff;
- Reviewed Public Laws 110-252 and 110-329, the Stafford Act, applicable portions of the Code of Federal Regulations, Federal Register notices, and Office of Management and Budget Circulars;
- Reviewed applicable HUD handbooks and guidebooks, Office of Community Planning and Development notices, and the State's CDBG Administrative Manual;
- Reviewed the State's project files, payroll records, and timesheets;
- Reviewed the grant agreements executed between HUD and the State;
- Reviewed HUD's monitoring review of the State's CDBG Disaster Recovery program; and
- Reviewed the State's audited financial statements.

We reviewed the B-08-DF-29-0001 (DF) grant totaling more than $11 million and the B-08-DI-29-0001 (DI) CDBG Disaster Recovery grant, totaling more than $97 million. The State had spent more than $66.4 million for the DI grant project expenditures and more than $10.5 million for the DF grant project expenditures as of June 29, 2015. It had spent more than $1.4 million for its DI grant administrative expenditures and $314,839 for its DF grant administrative expenditures as of July 16, 2015.

We selected a nonstatistical sample of 14 vouchers to review, including 7 from the DI grant and 7 from the DF grant. The vouchers list the amount of funds drawn for administrative expenses from each disaster recovery grant. For the DI grant, the seven sampled vouchers totaled $80,010, or 5.59 percent of the State's total DI administrative expenses. For the DF grant, the seven sampled vouchers totaled $19,385, or 6.16 percent of the State's total DF administrative expenses. For the DI sample, we selected every 20th voucher number from the list of 140 DI administrative fund vouchers. For the DF sample, we selected every 19th voucher number from the list of 135 DF administrative fund vouchers. We used a nonstatistical selection method to select the vouchers for review because it met our audit objective. The results of our review sample apply only to the items reviewed and cannot be projected to the universe.

We primarily used data from the State's files to meet our audit objective. In addition, we used HUD's Disaster Recovery Grant Reporting (DRGR) system data. The DRGR system was developed for the Disaster Recovery CDBG program and other special appropriations. Data from the system are used by HUD staff to review activities funded under these programs and for required quarterly reports to Congress. We determined that the DRGR data were sufficiently reliable to meet our objective.

Our audit period generally covered January 1, 2009, through May 31, 2015. However, we expanded our review through July 16, 2015, to review additional administrative expenditures. We conducted fieldwork from July through November 2015 at the Missouri Department of Economic Development, Business and Community Services Division's offices located at 301 West High Street, Jefferson City, MO. We also visited Disaster Recovery project offices located in Mexico, MO, Belton, MO, St. Joseph, MO, Kansas City, MO, and Warrenton, MO.

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

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 objective:

- Controls over the State's allocation of salaries to its Disaster Recovery grants.

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.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The State lacked a detailed payroll tracking system to ensure that only costs incurred in administering the Disaster Recovery program were charged to its Disaster Recovery grants.

Separate Communication of Minor Deficiencies

We reported minor deficiencies to the auditee in a separate management memorandum dated February 22, 2016.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	$1,272,294
1B	279,362
Total	$1,551,656

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments

The auditee elected not to provide written comments.