

**COUNTY OF MILWAUKEE**  
**Inter-Office Communication**

**Date:** March 31, 2009

**To:** Lee Holloway, Chairman, Milwaukee County Board of Supervisors

**From:** Jerome J. Heer, Director of Audits

**Subject:** Community Development Block Grant (CDBG)

**Background**

The 2009 Adopted Budget called for a review of the finances of the Community Development Block Grant (CDBG) program transfer from the Department of Administrative Services (DAS) to the Department of Health and Human Services (DHHS) to ensure the financials were in proper order. While the programmatic alignment of housing and block grant programs with other human services was deemed desirable, the directive was included in response to deficits that had developed in 2005 and 2007 when the programs were managed by the Economic and Community Development Division of DAS.

In conjunction with the DHHS Director of Housing, we have completed our review of the transition of CDBG financial management from DAS to DHHS. Our review focused on:

- **Project Reconciliation** – DHHS Accounting staff became involved in this program in August 2007 and has analyzed project activity back to 1999 and made adjustments in consultation with the Controller. Several reclassifications have been made for 2003 and 2005. We believe that project reconciliations are being managed properly. However, we believe that CDBG funds would be more effectively managed if a procedure was developed to ensure better accounting for project initiation and any amendments to projects. For example, upon County Board approval of proposed projects, Housing could create a memo column to identify the cost of each approved contract. When federal funding for the projects is received, amounts appropriated for each project can be compared to the amounts listed in the memo column to ensure the availability of funds for all contracts awarded. In addition, a control number could be established for each amendment by year.
- **Project “Draws”** –CDBG uses a reporting system from the U.S. Department of Housing and Urban Development (HUD) to track demands for payment of available funds (draws). While the printouts show draw detail by project, they do not track information by year. DHHS must rely on its own accounting analysis to properly manage project timing and they have procedures to do so. A system similar to the County’s online fiscal reports could isolate activity by year.
- **Cross Charges** – One of the causes of past deficits was a breakdown in the allocation of County charges to CDBG activities and the limited amount of funding available to absorb these charges. While 2008 year-end closing activity is still ongoing, it appears that many charges have already been properly aligned. In several instances where further clarification was needed, we informed DHHS of our concerns and they have been addressed. We recommend that beginning in 2009, cross charges and abatements be more directly aligned.
- **Reserves** – CDBG “reserves” are actually HUD funds that are appropriated and then drawn upon for specific projects. We identified an apparent reserve of \$76,347, but draws in progress reduced that amount to \$1,847. The balance is not readily categorized by year and amount. For future years, the program should develop a better method of tracking any activity with reserves by year, project and amount. As with project draws, the County’s online fiscal reports are a good example of how to monitor reserves by year.

- **Carryovers** – Year-end carryovers were a significant factor in causing problems in prior years. The Controller was instrumental in clearing up historical problems when he worked with the program to resolve the 2007 deficits. Carryovers for 2008 have been submitted. We believe that past issues have been addressed.
- **Intra-Program Activity** – We reviewed activity between the CDBG program and the Emergency Home Repair Loan Program and found the financial activity to be properly recorded.
- **Recommendations from Prior Audit Reviews** – Past recommendations by the Department of Audit have been addressed, including creation of a high-level accounting position, budgeting at the program level, building “red flags” into accounting and budgeting procedures, periodic allocations of administrative charges, limiting carryover activity and creating a Deputy Controller position in DAS Central Accounting.

We note that the internal accounting position spends approximately 30% of her time on CDBG. While this is a significant commitment, we believe that ongoing diligence is needed because of the relative complexity of program requirements. Any realignment affecting the current commitment or any increase in workload may require additional resources. We also note that the attempt to limit carryovers is being done on a voluntary basis. Given the improvement in accounting resources and procedures, this may be manageable.

#### **Conclusion**

The transition of the CDBG program from DAS to DHHS has been accomplished in a manner that has resulted in enhanced financial management. As with most programs in the DHHS Housing Division, CDBG has unique and challenging accounting requirements that will require ongoing diligence. Care should be taken to ensure the continuation of appropriate accounting support. Any changes to accounting resources or workload should be carefully monitored.

Jerome J. Heer

JJH/cah

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