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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

The State of Georgia Did Not Adequately Monitor Its Harvey, Irma, and Maria Grants' Activities and Subrecipients

Audit Report Number: 2023-AT-1001

March 28, 2023

Date: March 28, 2023

To: Claudia I. Monterrosa
Deputy Assistant Secretary, Office of Deputy Assistant Secretary for Grant Programs, DG

From: //signed//
Kilah S. White
Assistant Inspector General for Audit, GA

Subject: The State of Georgia Did Not Adequately Monitor Its Harvey, Irma, and Maria Grants' Activities and Subrecipients

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the State of Georgia's monitoring of its Community Development Block Grant Disaster Recovery activities and subrecipients for the Hurricanes Harvey, Irma, and Maria disasters.

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, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call Nikita N. Irons, Audit Director, at (404) 331-3369.

Highlights

THE STATE OF GEORGIA DID NOT ADEQUATELY MONITOR ITS HARVEY, IRMA, AND MARIA GRANTS' ACTIVITIES AND SUBRECIPIENTS | 2023-AT-1001

What We Audited and Why

We audited the State of Georgia's monitoring of its Community Development Block Grant Disaster Recovery (CDBG-DR) Hurricanes Harvey, Irma, and Maria (HIM) grants' activities and subrecipients. We initiated this audit to further HUD's strategic objective to support effectiveness and accountability in long-term disaster recovery. HUD awarded more than \$50.9 million in disaster recovery funds to the State for the natural disasters that occurred in January and September 2017.

Our objective was to determine whether the State effectively monitored its CDBG-DR HIM grants' activities and subrecipients to ensure that the activities addressed unmet long-term recovery needs.

What We Found

The State's approach and efforts to conduct monitoring reviews of its HIM grant activities and subrecipients were not sufficient. Specifically, the State (1) lacked an understanding of the differences between monitoring reviews and day-to-day operations, (2) had inadequate monitoring procedures, and (3) lacked policies and procedures to conduct remote monitoring. As a result, HUD and the State did not have assurance that the State's controls for program administration were effective for addressing unmet long-term recovery needs. There was also a risk that the planned activities would not serve the State's beneficiaries in a timely manner or meet its goals for the number of beneficiaries it planned to serve.

Recommendations

We recommend that the Deputy Assistant Secretary for Grant Programs instruct the State to ensure that it has an adequate approach for monitoring by (1) providing training to staff that includes an understanding of monitoring reviews, (2) updating its policies and procedures, and (3) developing policies and procedures to ensure that monitoring is conducted remotely if needed. We also recommend that the Deputy Assistant Secretary for Grant Programs monitor the State's CDBG-DR program to ensure that performance expectations are achieved.

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Background and Objective

On January 2, 2017, severe storms, tornados, and straight-line winds struck Dougherty County and the surrounding counties in the State of Georgia. On January 21 and 22, 2017, 41 tornados touched down across the State as part of a weather event that spawned the third most tornados over a 3-day event in recorded U.S. history. Further, in September of the same year, Hurricane Irma damaged southern Georgia to levels not been seen since 1994. In response, for disaster recovery, HUD granted more than \$50.9 million in CDBG-DR funds to the State for its unmet needs. Specifically, the CDBG-DR funds were made available to address unmet disaster recovery needs, related to disaster relief, long-term recovery, restoration of infrastructure and housing, economic revitalization, and mitigation in the most impacted and distressed areas. Table 1 below lists the two funding allocations that comprise the \$50.9 million and the amount disbursed as of December 5, 2022. The State has until December 31, 2027, to expend the remaining funds.¹

Table 1

Allocation ²	Date grant executed	Grant award amount	Amount disbursed (as of 12/5/2022)	Amount remaining (as of 12/5/2022)
1	June 27, 2019	\$37,943,000	\$16,808,363	\$21,134,637
2	December 31, 2020	13,015,596	32,513	12,983,083
Totals		50,958,596	16,840,876	34,117,720

The State's CDBG-DR program is administered by the Georgia Department of Community Affairs, which was created in 1977, is governed by a 19-member board of directors, and is managed by executive staff members. On July 1, 1996, the governor and the General Assembly merged the Georgia Housing and Finance Authority with the Georgia Department of Community Affairs. The Department of Community Affairs' mission is to help build strong, vibrant communities. It receives funding for and administers multiple HUD-related programs, such as Community Development Block Grants (CDBG), including CDBG-DR; Emergency Solutions Grants (ESG); and HOME Investment Partnerships program grants (HOME).

For the administration of the CDBG-DR HIM grants, the State undertook eight activities, five of which were administered by the State or multiple subrecipients and three were administered solely by the State. Therefore, the number of activities do not correlate one-to-one with the number of subrecipients. A detailed illustration of the activities and the responsible entities is included in table 2 below.

¹ The State has until June 27, 2026, for the 1st tranche of funds and December 31, 2027, for the 2nd tranche. These expenditure deadlines can be extended for good cause.

² The first grant allocation, published via Federal Register (FR) Notice 83 FR 40314 on August 14, 2018, allocated funds appropriated by the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018. The second grant allocation, published via Federal Register Notice 85 FR 4681 on January 27, 2020, allocated funds appropriated by the Supplemental Appropriations for Disaster Relief Act, 2018, and the Additional Supplemental Appropriations for Disaster Relief Act, 2019.

Table 2

Activity	Responsible entity	Activity description
Housing Rehabilitation and Reconstruction Program	State	The program consists of (1) rehabilitation or reconstruction of existing or destroyed housing units and (2) temporary housing assistance for residents impacted by the 2017 disasters.
	Dougherty	
	Kingsland	
	Brunswick	
Public Services	Georgia Heirs Property Law Center	The activity involves legal services, including title searches and clearances for the homeowner rehabilitation and reconstruction program participants.
Planning	State	This activity involves planning and preplanning related to action plans, implementation plans and standard operating procedures. The activity also includes an analysis of communication infrastructure that will result in a detailed planning guide on the regional and county level. The State plans to produce an assessment of network resiliency. The goal of the study is to mitigate the effects of future disasters by ensuring timely response through robust communications infrastructure.
	Kingsland	
	Brunswick	
Administration	State	Grantees may use up to 5 percent of the total grant award for grant administration plus program income. This activity covers administrative costs to run the program.
Affordable Rental Housing	State	This activity will provide 340 multifamily units for disaster impacted residents. The multifamily housing will involve rehabilitation and new construction. This activity was administered by the state's Office of Housing Finance.
Affordable Multifamily Rehabilitation	Brunswick	This activity involves replacing damaged windows in a multifamily project with hurricane shatter-proof windows. The activity also involves replacing the rusted heating ventilation and air condition (HVAC) systems.
Infrastructure	State	This activity involves four drainage system upgrades, including the replacement of undersized box culverts, widening of existing ditches, upsizing pipe runs and the construction of a new outfall canal.
	Glynn	
Acquisition Buyout	State	The activity was intended to help prevent repetitive loss and extreme risk to human health and safety. However, the activity was cancelled by the State due to a lack of participation from local government subrecipients.

Our objective was to determine whether the State of Georgia effectively monitored its CDBG-DR HIM grants' activities and subrecipients to ensure that the activities addressed unmet long-term recovery needs.

Results of Audit

The State of Georgia Did Not Adequately Monitor Its Harvey, Irma, And Maria Grants' Activities and Subrecipients

The State's approach and efforts to conduct monitoring reviews of its HIM grant activities and subrecipients were not sufficient. Specifically, the State (1) lacked an understanding of the differences between monitoring reviews and day-to-day operations, (2) had inadequate monitoring procedures, and (3) lacked policies and procedures to conduct remote monitoring. As a result, HUD and the State did not have assurance that the State's controls for program administration were effective for addressing unmet long-term recovery needs. There was also a risk that the planned activities would not serve the State's beneficiaries in a timely manner or meet its goals for the number of beneficiaries it planned to serve.

Monitoring Reviews Were Not Completed for HIM Activities and Subrecipients

Since the execution of its grant agreement with HUD on June 27, 2019, the State had not performed any monitoring reviews of its CDBG-DR HIM grants' eight activities or of its five subrecipients, which sufficiently met the monitoring requirements.³ Specifically, the Uniform Guidance (December 19, 2014) of 2 CFR (Code of Federal Regulations) 200.329 provides that non-Federal entities must monitor their activities to ensure that performance expectations are achieved.⁴ The State explained that it monitored each draw request and conducted internal audits, which it believed fulfilled the requirement to conduct monitoring according to the regulations. However, we determined that the State lacked an understanding of what comprised a monitoring review according to HUD's requirements and guidance. HUD's guidance⁵ provides that there are five basic steps in an onsite or remote monitoring visit: (1) a notification letter, (2) entrance conference, (3) documentation acquisition and analysis, (4) exit conference, and (5) follow-up monitoring letter. What the State believed to be monitoring did not include these steps.

State's Reviews of Draw Requests

The State believed that it monitored each draw request submitted by its subrecipients and its Office of Housing Finance³ under a multitiered review. What the State considered to be monitoring in this instance was, rather, a part of the day-to-day controls for approving draw requests for payment. The draw review included an analysis by the State's CDBG-DR program manager and CDBG-DR program staff and at least a two-level approval by supervisors before processing the payment. This process of approving draw requests did not meet the criteria of a monitoring review because this tiered-level review was not

³ Some activities were carried out by multiple subrecipients, and some activities were administered by the State including its Office of Housing Finance, without the use of subrecipients. Therefore, the number of activities do not correlate one-to-one with the number of subrecipients. See table 2 for details.

⁴ 24 CFR 570.492 and 2 CFR 200.332 also provides that states must monitor and review local governments and subrecipients to ensure that subawards are used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

⁵ HUD's Managing CDBG: A Guidebook for Grantees on Subrecipient Oversight, Chapter 5. Although this guidebook did not apply to CDBG-DR grantees, the State commented that its written procedures for monitoring were consistent with this guidebook.

conducted after the draws were approved. A monitoring review, at a minimum, could have tested the draw approval process to determine whether the controls in place were effective.

State's Internal Audits

The State considered its internal auditor's reviews to be monitoring reviews. While the State's internal audits can be considered a part of the State's oversight efforts, the completed internal audits were not sufficient to be considered monitoring reviews. For example, our review of the internal audit reports found that they focused primarily on reviewing the State's policies and procedures for the CDBG-DR HIM program and did not include reviewing the activities' and subrecipients' (1) program expenditures; (2) grant performance progress, to include testing of activity delivery costs; (3) procurement activities; (4) environmental reviews; (5) duplication of benefits processes; (6) fair housing and equal opportunity processes; (7) applicant eligibility; or (8) capacity-building activities. The one quarterly internal audit performed testing of the State's CDBG-DR HIM processes, to include program expenditures. However, this audit was conducted for only one of eight activities⁶ the State had in process. Further, audits were not performed consistently. Over a period of nearly 40 months, from September 2019 through November 2022, only 14 internal audit reports were completed, of which 13 were considered monthly audit reports and 1 was a quarterly audit report.

Additionally, the State's internal audit process did not allow for an opportunity to implement corrective actions. The State explained that its internal audit reports were not provided to its CDBG-DR program staff and, instead, were provided directly to the State's commissioner. Although the auditor was not required to provide the audit reports directly to the CDBG-DR program staff, the reports should be made available to the staff for corrective actions to be implemented.

The CDBG-DR program manager stated that the State's internal audit function and not the CDBG-DR department was responsible for monitoring CDBG-DR program activities. However, the CDBG-DR HIM grant agreements make a clear distinction between monitoring and internal audits and state that both are required as separate performance elements.⁷ HUD agreed that the State's internal audit function was different from a monitoring review.

Policies and Procedures for Conducting Monitoring Reviews Were Not Always Followed and Lacked Consistency

Our review of the State's monitoring policies and procedures found inconsistencies and instances in which the State did not follow its own policies. The State's monitoring procedures and controls consisted primarily of four documents: (1) CDBG-DR subrecipient monitoring plan, (2) 2017 CDBG-DR implementation plan, (3) CDBG-DR standard operating procedures, and (4) CDBG-DR monitoring

⁶ The Homeowner Rehabilitation and Reconstruction Program (HRRP) activity was tested in the quarterly internal audit in August 2021. The audit concluded that there were no deficiencies for five of seven HRRP draw requests. However, it noted a discrepancy of less than \$130 with the remaining two draw requests.

⁷ The grant agreement provides that a grantee has adequate procedures to detect and prevent fraud, waste, and abuse if it (1) submits procedures that indicate how the grantee will verify the accuracy of information provided by applicants; (2) provides a monitoring policy indicating how and why monitoring is conducted, the frequency of monitoring, and which items are monitored; and (3) demonstrates that it has an internal auditor who provides both programmatic and financial oversight of grantee activities.

handbook including procedures, all of which lacked clarity and consistency. Table 3 below summarizes the monitoring procedures and our observations.

Table 3

Monitoring policy and procedure document	Onsite monitoring reviews addressed?	Desk reviews of drawdowns addressed?	Additional observations
Implementation plan (policy)	Yes, based on risk assessment	Yes, but the process involves approving draws and not monitoring	- Stated that it would aggressively monitor subrecipients as a means to minimize delays but no monitoring reviews were conducted.
Standard operating procedures	Yes, quarterly of each subrecipient	Yes, but the process involves approving draws and not monitoring	- Provided a policy for reviewing the timeliness of the affordable rental housing activity ⁸ but did not specify a procedure for conducting the review.
Monitoring handbook (procedures)	Yes, but no frequency identified	Yes, but the process involves approving draws and not monitoring	- Stated that monitoring reviews of the affordable rental housing activity would be conducted by the CDBG-DR program office, but in practice, the State expected the internal auditor to perform this review.
Subrecipient monitoring plan (procedures)	Yes, but no frequency identified.	Yes, but the process involves approving draws and not monitoring	Not Applicable (N/A)

While all four of the State policies and procedures generally described requirements to conduct monitoring, the frequency of monitoring reviews was inconsistent across documents and the State did not follow its own policies and procedures.

The CDBG-DR program manager stated that prior management wrote the procedures to require quarterly monitoring of each subrecipient; however, the State did not have the budget and the staff needed to monitor each subrecipient quarterly. At the conclusion of our review, the State was updating its procedures to revise its monitoring frequency.

Further, the State explained that it did not conduct monitoring reviews as outlined in its policy because its subrecipients' activities had not progressed far enough to be monitored, partially due to the COVID-19 pandemic. For example, the State's subrecipient monitoring plan included a risk assessment and identified environmental reviews as a concern for the Housing Rehabilitation and Reconstruction Program (HRRP) activity involving subrecipients. To address this concern regarding proper completion of environmental reviews, the plan provided that the State would perform onsite monitoring for the first batch of HRRP projects before any rehabilitation or reconstruction activities occurred. However, the State did not conduct monitoring reviews of any of its activities or subrecipients related to environmental

⁸ The affordable rental housing activity was solely administered by the State's Office of Housing Finance.

reviews. The State acknowledged that its HRRP subrecipients were struggling to conduct the tier 2⁹ environmental reviews, as evidenced by two of the State's three HRRP subrecipients experiencing delays due to environmental reviews. These challenges can be attributed to a lack of capacity, staffing issues, and contractor performance. The State explained that it addressed the concerns related to subrecipients' environmental reviews by (1) conducting all of the tier 1 environmental reviews in-house on its own and (2) requiring its CDBG-DR staff to review each of the subrecipients' tier 2 environmental reviews before any application moved forward. However, without performing a monitoring review, the State lacked assurance that the HRRP activity was making progress and the controls put in place for reviewing environmental reviews were working efficiently.

Alternative Procedures To Conduct Remote Monitoring Should Be Considered

While the COVID-19 pandemic impacted the State's ability to conduct onsite monitoring, the State had not developed alternative procedures, including remote monitoring, of its CDBG-DR HIM activities and subrecipients to ensure that performance expectations were achieved. In lieu of being onsite, the State could develop procedures to ensure that its subrecipient activities are monitored. Certain program facets that could be remotely monitored include but are not limited to draw requests, environmental reviews, financial management, procurement, citizen participation, intake documents, and procedures. One of the State's subrecipients stated that it believed that the State had the capability to perform monitoring reviews remotely because it could provide documentation to the State electronically. In response to our draft findings, the CDBG-DR program manager stated that the State was already updating its procedures to perform monitoring reviews remotely.

HUD Lacked Assurance That the State's Program Administration of Disaster Recovery Funding Was Effective for HIM Program Activities

HUD relies on grantee monitoring¹⁰ to help ensure proper administration of disaster recovery grants. However, due to the conditions described above, HUD and the State did not have assurance that its controls for program administration were effective for the CDBG-DR HIM program activities. In addition, there was a risk that the planned activities would neither serve the State's beneficiaries in a timely manner nor meet its projected goals for the number of beneficiaries it planned to serve. For example, as of December 5, 2022, only the affordable rental housing activity had achieved a small portion (25 percent) of its planned beneficiary goal approximately 3 years after the grant was awarded to the State. Similarly, activities administered by subrecipients also reflect a lack of progress because no beneficiaries had served as of December 5, 2022. The planned completion dates for each activity ranged from October

⁹ The goal of tiering in environmental review is to eliminate repetitive discussions of the same issues. A tiered review consists of two stages. Tier 1 reviews evaluate issues that can be resolved and also establish the standards, constraints, and processes to be followed in the site-specific reviews. Tier 2 reviews evaluate the remaining issues based on policies established in the tier 1 review as individual sites are selected for review.

¹⁰ Under 83 FR 5847 VI (A).1a., grantees must complete a certification of financial controls and procurement processes and adequate procedures for proper grant management. This certification requires that grantees have proficient financial controls and procurement processes and have established adequate procedures to ensure the timely expenditure of funds; maintain a comprehensive website regarding all disaster recovery activities assisted with these funds; and detect and prevent waste, fraud, and abuse of funds. The procedures include monitoring reviews.

29, 2022, through September 12, 2024.¹¹ Table 4 below provides a high-level summary of the grant performance progress by beneficiaries and budget for each activity as of December 5, 2022.

Table 4

Activity ¹²	Responsible entity	Beneficiaries		Planned completion ¹³	Total budget	Percentage drawn
		Planned	Actual			
Housing	State	150	0	2022	\$8,517,400	32.00%
Rehabilitation and Reconstruction Program (HRRP)	Dougherty	60	0	10/29/22		
	Kingsland	60	0	11/15/22		
	Brunswick	60	0	02/14/23		
Affordable Multifamily Rehabilitation	Brunswick	150	0	2022	6,000,000	0.00%
Public Services	Georgia Heirs Property Law Center	50	0	02/14/23	337,000	72.00%
Planning	State	N/A	N/A	2024	3,522,102	28.00%
	Kingsland	N/A	N/A	09/12/24		
	Brunswick	N/A	N/A	N/A		
Administration	State	N/A	N/A	2024	2,547,930	58.00%
Affordable Rental Housing	State	340	86 ¹⁴	2022	13,534,164	84.00%
Infrastructure	State	N/A	N/A	2024	16,500,000	0.20%
	Glynn	8,415	0	N/A		
Acquisition Buyout ¹⁵	State	120	0	2022	0	N/A ¹²
Totals		9,405	86	N/A	50,958,596	33.00%

In addition to the finding noted above, we identified two other matters that, in our opinion, warrant the State's and or HUD's attention but were not considered significant. Accordingly, we will inform the State and HUD of the minor deficiencies at a later date.

¹¹ Under 85 FR 50041, an automatic 1-year extension on the grant performance period was provided, which established the State's overall grant completion date as December 30, 2027. Therefore, the State has the option of extending the subrecipient agreements as needed.

¹² See the Background and Objective section of this report for a detailed description of the activities.

¹³ The planned completion date for the State is based on the proposed end date in its most recent published action plan, which listed only the year. However, each subrecipient agreement included a planned performance completion date, which was 3 years after the execution of the agreement.

¹⁴ The total number of beneficiaries for this activity include the actual number of homeowner households and the actual number of renter households.

¹⁵ This activity was canceled, and the State reallocated the remaining budget to administration. Therefore, the amount budgeted is shown as \$0.

Recommendations

We recommend that the Deputy Assistant Secretary

- 1A. Provide technical assistance to the State and the staff to ensure that they understand the requirements for conducting a monitoring review in accordance with regulations.
- 1B. Instruct the State to update and implement the CDBG-DR standard operating procedures, which clearly outline what activities, including the frequency, will be reviewed by its monitoring and internal audit function.
- 1C. Instruct the State to conduct monitoring reviews of its CDBG-DR HIM activities and subrecipients that satisfy monitoring requirements.
- 1D. Work with the State to develop and implement policies and procedures to ensure that monitoring is conducted remotely in the event that it cannot be conducted onsite.
- 1E. Instruct the State to update and implement policies and procedures to ensure that the results of the CDBG-DR internal audits are shared by the State's Commissioner with CDBG-DR program staff to allow for the resolution of any findings and required corrective actions.
- 1F. Monitor the State's CDBG-DR program to ensure that performance expectations are achieved.

Scope and Methodology

We performed our audit work between July 2022 and March 2023 at the State's Department of Community Affairs located at 60 Executive Street, Atlanta, GA, and our office in Atlanta, GA. Our audit period was January 1, 2017, through May 31, 2022.

To accomplish our audit objective, we interviewed HUD and State officials and the State's subrecipients and reviewed

- relevant laws, regulations, and guidance;
- the State's policies and procedures focusing on monitoring;
- the State's subrecipient agreements;
- technical assistance summaries, drawdown reports, and beneficiary reports in the Disaster Recovery Grant Reporting (DRGR) system;
- the State's CDBG-DR action plan and amendments;
- the State's HIM grant agreements, dated June 27, 2019, and December 31, 2020;
- the State's internal audit reports ranging from September 30, 2019, through April 26, 2022; and
- available technical assistance reports.

To determine whether the State monitored its CDBG-DR HIM grants' activities and subrecipients, we requested all of the State's monitoring reports. The State did not conduct any monitoring reviews; therefore, we were unable to establish a universe of monitoring reviews. We also ran DRGR queries to identify whether the State uploaded summary information of its monitoring reviews and found none.

We relied in part on computer-processed data contained in HUD's DRGR system to achieve our audit objective. 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 adequately reliable for our purposes. The tests for reliability included but were not limited to accessing computer-processed data to verify whether the State had support for monitoring and technical assistance. We also compared the State's published action plans to the action plans provided in DRGR.


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 finding and conclusion based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

Appendixes

Appendix A – Auditee Comments and OIG’S Evaluation

Ref to OIG Evaluation – Auditee Comments

Brian P. Kemp
Governor



Christopher Nunn
Commissioner

March 15, 2023

Nikita N. Irons, CFE, CGAP
Audit Director, Office of Inspector General
U.S. Department of Housing and Urban Development
Richard B. Russell FB, 75 Ted Turner Drive, SW RM 330
Atlanta, GA 30303-3388

Dear Ms. Irons:

The Georgia Department of Community Affairs (“DCA” or “the State”) shares HUD’s commitment to ensuring effectiveness and accountability in all administered funds. While it would be ideal that no future disaster recovery allocations be needed, the State recognizes a need may arise from time to time.


DCA values the OIG’s recommendations to improve future administration of any CDBG-DR funds. The agency also appreciates the opportunity to comment on this report and aims to highlight additional facts and clarify several inaccurate statements contained within.

Respectfully, the agency disputes the contention that monitoring created risk that “planned activities would not serve the State’s beneficiaries in a timely manner.” It is noted in the background that events leading up to this allocation occurred in January 2017. Though the allocation was announced in April 2018, 15 months after the disasters, the state’s grant award was not received from HUD until June 2019, 30 months after the fact. These federal delays certainly contribute to timeliness of response, in addition to the COVID-19 Emergency Declaration which halted progress, as many local governments focused on response to another ongoing emergency.

On page 3 (“State’s Review of Draw Requests”), the OIG contends that State monitoring was simply part of “the day-to-day controls for approving draw requests.” In fact, this monitoring process was specifically included in the State’s action plan approved by HUD. The OIG references guidelines included in “HUD’s Guidebook for Grantees on Subrecipient Oversight”; however, the referenced 5-step process is required by neither regulation nor statute. In 24 CFR 570.480(c), it is clear that “... the Secretary will give maximum feasible deference to the state’s interpretation of the statutory requirements and the requirements of this regulation” Again, the State’s process was approved by HUD in advance.

The report also suggests the State considered its internal auditor’s review to constitute monitoring. That is inaccurate. As outlined in the approved action plan, the internal auditor’s function is to “conduct programmatic and financial audits on the DR program” as required under the federal register notice. At no time did the State consider this responsibility to satisfy requirements for subrecipient monitoring.

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 **Comment 1 >**

 **Comment 2 >**

 **Comment 3 >**

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 **Comment 4 >**

Finally, on page 7, Table 4 references activities carried out for a subrecipient, City of Brunswick for the St. Mark's Tower rehabilitation, that are inaccurately reflected in the Housing Rehabilitation and Reconstruction Program (HRRP). These activities are part of the Multifamily Rehabilitation activity, which is a separate and distinct program with a separate allocation.

 **Comment 5 >**

In a passing reference at the end of page 7, the OIG references two "other matters that warrant management's attention"; however, no further explanation is provided. Should these concerns pertain to the State, the statement should be clarified so that the issues can be addressed. If not, the reference should be removed from the final report.

 **Comment 6 >**

With respect to the recommendations regarding monitoring, DCA concurs and, as noted throughout the OIG report, has already begun to implement recommended changes. Specifically,

- 1A. The State has and will welcome HUD's technical assistance, in order that the DCA team can learn and glean best practices from across the country.
- 1B. DCA will review and update the CDBG-DR standard operating procedures so that internal audit and CDBG-DR are addressed appropriately.
- 1C. Monitoring reviews have been conducted in accordance with the State's policies and procedures. Onsite monitoring is now taking place for activities that are currently underway.
- 1D. Policies and procedures were updated in November 2022 to include remote monitoring.
- 1E. Policies and procedures were updated in November 2022 to ensure internal audit findings are effectively communicated. (Note: To date, there have been no internal audit findings related to the CDBG-DR program.)
- 1F. HUD conducted a performance audit of the CDBG-DR program from January 30, 2023 until February 3, 2023. The State will incorporate the results of that performance audit into its practices.

Sincerely,



G. Christopher Nunn (Mar 15, 2023 16:32 EDT)

G. Christopher Nunn
Commissioner

 **Comment 7 >**

Cc:  Assistant Audit Director
 Office of Inspector General

OIG Evaluation of Auditee Comments

Comment 1 The State disputed that its monitoring created a risk of planned activities not serving its beneficiaries in a timely manner. In support of its position, the State explained that Federal delays in awarding funds and the COVID-19 Emergency Declaration contributed to the timeliness of response. While we have already identified the pertinent dates and the COVID-19 pandemic, our assessment of the risk of untimely services was based on the State’s planned completion dates, ranging from 2022 to 2024. As identified, there is a risk that the beneficiaries will not be served timely if the State continues to not monitor and take necessary corrective actions. The State should work with HUD during the audit resolution process to fully implement recommendation 1C to monitor its HIM grant activities and subrecipients to ensure that its controls for program administration are effective for addressing unmet long-term recovery needs.

Comment 2 The State disagreed that its review of draw requests was simply part of the day-to-day operations as opposed to monitoring. Instead, the State explained that its monitoring process consisting of draw request reviews was included in its action plan, which was approved by HUD. Further, the State criticized the reference of HUD’s Guidebook for Grantees on Subrecipient Oversight as not being regulation nor statute and stated that Federal requirements at 24 CFR 570.480(c) allow maximum feasible deference to the State’s interpretation of the statutory requirements and the requirements.

As stated in the report, the State’s review of draw requests was a review of payment requests and not a monitoring review to test the draw approval process to ensure that the controls in place were effective. Further, the State had identified that its written procedures for monitoring were consistent with HUD’s Managing CDBG: A Guidebook for Grantees on Subrecipient Oversight. Irrespective of HUD’s approval or the allowed maximum feasible deference, the State was required to perform monitoring reviews of its activities and subrecipients in accordance with 24 CFR 570.492 and 2 CFR 200.329 and 332. The State should work with HUD during the audit resolution process to fully implement recommendations 1A and 1B to ensure that its approach for monitoring is adequate to include monitoring its HIM grant activities and subrecipients to ensure that its controls for program administration are effective for addressing unmet long-term recovery needs.

Comment 3 The State commented that the report inaccurately suggested that it considered its internal audits to constitute monitoring. The State also commented that it did not consider the internal auditor’s responsibility of conducting programmatic and financial audits to satisfy its subrecipient monitoring requirements.

We agree with the State that the internal auditor’s responsibility is separate from the requirements for monitoring program activities and subrecipients. The information presented in our report is based on the State’s response to our internal

control questionnaire, staff interviews, and our review of criteria and documentation provided by the State as detailed in the Scope and Methodology section of this report. The State should work with HUD during the audit resolution process to fully implement recommendations 1A, 1B, and 1E to ensure that a proper distinction is made between the monitoring and the internal audit function.

- Comment 4 The State clarified that the HRRP activity recorded in Table 4 of the report for the subrecipient Brunswick is incorrect representation, and that the activity is part of the Multifamily Rehabilitation activity. Although both activities are recorded under rehabilitation/reconstruction of residential structures activity in HUD's DRGR system for the State's CDBG-DR HIM grants, we added the Multifamily Rehabilitation activity as a separate line item in Table 4 for transparency purposes.
- Comment 5 The State suggested that we remove the reference of, or specify what the two other matters requiring management's attention are. For clarity, we specified that the matters required the State's and or HUD's attention as opposed to management's attention. As stated in the report, we did not discuss in detail the two matters because they did not rise to the level of significance to warrant full explanation in this audit report. These matters will be communicated to the State and HUD in a separate letter. Accordingly, during the audit resolution process, HUD should consider working with the State to address the issues as necessary.
- Comment 6 The State explained that it concurs with all of the recommendations in the report. Specifically, it stated that it is in the process of or already has implemented the recommendations. We acknowledge and commend the State's willingness to implement our recommendations. The State should work with HUD during the audit resolution process to ensure that all recommendations are fully implemented.
- Comment 7 The State included HUD-OIG personnel as individuals receiving copies of the letter on the bottom of its response. The names of HUD-OIG officials were redacted due to privacy concerns.