



**Office of Public and Indian Housing
Washington, DC**

HOPE VI Revitalization Grants



Issue Date: June 7, 2013

Audit Report Number: 2013-HA-0002

TO: Dominique Blom
Deputy Assistant Secretary, Office of Public Housing Investments, PI

//signed//

FROM: Donna M. Hawkins
Acting Director, Inspections and Evaluations Division, Washington, DC, GAH

SUBJECT: HUD's Office of Public and Indian Housing Did Not Announce Additional
Funding, Publish Awards, and Justify Score Changes for Its HOPE VI
Revitalization 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 selection and award of HUD's fiscal year 2010 HOPE VI revitalization grants.

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 8L, 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 202-402-8284.



June 7, 2013

HUD's Office of Public and Indian Housing Did Not Announce Additional Funding, Publish Awards, and Justify Score Changes for Its HOPE VI Revitalization Grants

Highlights

Audit Report 2013-HA-0002

What We Audited and Why

We audited the selection and award of the U.S. Department of Housing and Urban Development's (HUD) fiscal year 2010 HOPE VI revitalization grants, based on a hotline complaint alleging that HUD's Office of Public and Indian Housing (PIH) (1) selected and awarded fiscal year 2011 HOPE VI funds to grantees that applied for fiscal year 2010 grants but did not publish a notice of funding availability (NOFA) for its fiscal year 2011 funds and (2) made mistakes in calculating points when scoring applications. Our objective was to determine whether the selection and award of grantees for the fiscal year 2010 HOPE VI revitalization grants complied with the HUD Reform Act of 1989 and PIH properly scored its HOPE VI grant applications.

What We Found

The complainant's allegations had merit. In particular, PIH did not comply with the HUD Reform Act of 1989 in awarding 2011 grant funds under the 2010 NOFA for HOPE VI revitalization grants. Specifically, it awarded fiscal year 2011 funds without announcing the availability of funds to the general public. It also did not have the application files readily available for review within 30 days after the awards were made. In addition, PIH changed the scores of three applications and supported the changes with conflicting justifications.

What We Recommend

We recommend that the Deputy Assistant Secretary for Public Housing Investments implement controls to ensure that increased funding during the grant competition follows the established NOFA procedures and the public is notified. We also recommend that PIH implement quality control procedures to ensure that applications are accurately recorded and supported.

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BACKGROUND AND OBJECTIVE

The HOPE VI program, originally known as the Urban Revitalization Demonstration, was developed as a result of recommendations by the National Commission on Severely Distressed Public Housing to eradicate severely distressed public housing. This program is administered by the Office of Public and Indian Housing (PIH), more specifically by the Office of Public Housing Investments (OPHI).

The purpose of the HOPE VI revitalization grants is to assist public housing authorities in

- Improving the living environment for public housing residents of severely distressed public housing projects by demolishing, rehabilitating, reconfiguring, or replacing obsolete public housing projects (or portions thereof);
- Revitalizing sites (including remaining public housing dwelling units) on which such public housing projects are located and contributing to the improvement of the surrounding neighborhood;
- Providing housing that will avoid or decrease the concentration of very low-income families; and
- Building sustainable communities.

The U.S. Department of Housing and Urban Development's (HUD) fiscal year 2010 HOPE VI grant program was authorized \$200 million under the Consolidated Appropriations Act of 2010. Of the \$200 million, PIH set aside \$125 million specifically for HOPE VI grants. This \$125 million includes \$121.5 million in fiscal year 2010 HOPE VI funds and \$3.5 million from fiscal year 2010 technical assistance funds. In 2011, the HOPE VI grant program was authorized \$100 million under the Continuing Appropriations Act of 2011. Of the \$100 million appropriated for 2011, PIH set aside \$27.4 million for HOPE VI grants.

HUD announced the HOPE VI Revitalization Notice of Funding Availability (NOFA) in the Federal Register on August 25, 2010. Applications were to be submitted by November 22, 2010. The maximum amount of each HOPE VI grant was \$22 million. PIH decided to award the \$28 million in fiscal year 2011 funds to applicants of the 2010 competition. With \$244,530 also available in no-year HOPE VI funds, the total funds available for the fiscal year 2010 grant competition was approximately \$153 million. HUD received 36 applications in response to this NOFA, and 6 of these applications were declared ineligible. Of the 30 applicants eligible for a HOPE VI grant, 8 were selected for funding and announced on May 23, 2011.

Each HOPE VI grant application was scored based on responses to the following factors:

- Rating factor 1: capacity (16 points)
- Rating factor 2: need (15 points)
- Rating factor 3: leveraging (15 points)

- Rating factor 4: resident and community involvement (3 points)
- Rating factor 5: community and supportive services (12 points)
- Rating factor 6: early childhood education (5 points)
- Rating factor 7: relocation (3 points)
- Rating factor 8: fair housing and equal opportunity (6 points)
- Rating factor 9: mixed-income communities (4 points)
- Rating factor 10: soundness of approach (26 points)

The maximum score possible for an application is 105. Applications that meet all threshold requirements are eligible for scoring and undergo a preliminary rating and ranking. Applications go for a final review by a panel consisting of senior staff. After the final panel review, a final score is assigned to each application, and the applications are ranked in score order. The panel then recommends the most highly rated applications to the Assistant Secretary for Public and Indian Housing, who presents the recommendation to the HUD Secretary.

The objective of our audit was to determine whether the selection and award of grantees for the fiscal year 2010 HOPE VI revitalization grants complied with the HUD Reform Act of 1989. We expanded our objective to determine whether PIH properly scored its HOPE VI grant applications.

RESULTS OF AUDIT

Finding 1: PIH Did Not Provide Notice or Make Records Available as Required by the HUD Reform Act During Its Fiscal Year 2010 HOPE VI Grant Competition

PIH did not comply with the HUD Reform Act of 1989 in awarding grants under the 2010 NOFA for HOPE VI revitalization grants. PIH increased the number of grants selected by two and awarded approximately \$28 million in fiscal year 2011 funds to fiscal year 2010 applicants without notifying the public. It also did not have the application files readily available for review after the awards were made, and the results of its final funding decisions were not published in the Federal Register. These conditions occurred because PIH did not (1) want to hold a competition to award the fiscal year 2011 funds, thus ignoring its normal procedures; (2) know that grant applications and files should be available for review 30 days after the award date; and (3) ensure that grantee selections were published. As a result, the public was not notified of HUD's intent to increase the funds and the awarding of two additional HOPE VI grants during its fiscal year 2010 competition. HUD had no assurance that the application files contained all documentation and other information regarding the basis for its funding decision.

Fiscal Year 2011 Funding Not Published

On June 4, 2010, HUD's Deputy Secretary signed the Notice of HUD's Fiscal Year (FY) 2010 Notice of Funding Availability (NOFA) Policy Requirements and General Section to HUD's FY2010 NOFAs for Discretionary Programs. This notice states that additional program NOFAs would be published during fiscal year 2010 and that additional funding opportunities would be made available on www.Grants.gov, with a corresponding Federal Register notice. PIH's HOPE VI revitalization grants program fiscal year 2010 NOFA, dated August 25, 2010, stated that approximately \$124 million in assistance was available to fund five or six grant awards. The maximum award available for each grant was \$22 million. The deadline for submitting applications was November 22, 2010.

At the end of the grant competition and after the November 22, 2010, deadline for submitting applications had expired, PIH increased the number of grants that would be selected from six to eight and the available funding from \$125¹ million to \$153 million, which included \$28 million from the HOPE VI fiscal year 2011 fund.

¹ The PIH Budget Office confirmed that the actual amount of fiscal year 2010 HOPE VI funds available for grants was \$125,041, 220. This amount included approximately \$121.5 million in fiscal year 2010 HOPE VI funds and \$3.5 million in fiscal year 2010 technical assistance funds. The PIH Budget Office informed OPIH that only \$27.9 million would be available in fiscal year 2011 HOPE VI funds.

During a discussion of the HOPE VI rollout and confirmation of funds transfer on May 16, 2011, the Acting Director of the Budget Administration Division posed the following question to the Director of the Urban Revitalization Division:

Has the NOFA been modified to say that we intend to award the FY2011 funds through the FY2010 NOFA?

On May 17, 2011, in response to the Acting Director of Budget Administration's question, the Director of the Urban Revitalization Division asserted to the General Deputy Secretary and Advisor to the Assistant Secretary of Public and Indian Housing:

I see that none of us got back to [Acting Director of Budget Administration] yesterday. I can follow-up with [Associate General Counsel for Legislation and Regulation] who attended the meeting on April 22nd when we first discussed how the \$100 million would be divided up between Choice and HOPE VI and whether we wanted to fund 2010 application with 2011 funds.

Because time was critical regarding whether PIH needed to notify the public of the availability and use of the HOPE VI 2011 funds during the fiscal year 2010 HOPE VI competition, the Advisor to the Assistant Secretary for Public and Indian Housing contacted the Associate General Counsel for Legislation and Regulation on May 18, 2011. The Associate General Counsel for Legislation and Regulation responded:

... if a[n] earlier decision is needed, please note that if OCFO [Office of the Chief Financial Officer] is ok with the plan, then it should be ok.

Although there were many discussions regarding whether PIH could award fiscal year 2011 HOPE VI grant funds before announcing that these funds were available, PIH did not issue an amendment to the NOFA notifying the public of the increase in funding and the number of grants to be awarded. The Director of the Urban Revitalization Division contended that due to the amount of staff time required and the small amount of funding available (\$25 million), PIH did not want to hold a competition. However, according to section 102(a) of the HUD Reform Act of 1989,² before HUD may solicit an applicant for assistance, it must publish a notice in the Federal Register describing the application procedures. Also, not less than 30 days before the submission deadline, HUD must publish selection criteria in the Federal Register. Instead, PIH selected the two additional applicants without competition, and the HUD Secretary made the following public announcement in a May 23, 2011, press release:

² Title 42, chapter 4, U.S.C. (United States Code) 3545

The eight housing authorities announced today were selected from among 36 public housing authorities that applied for FY [fiscal year] 2010 HOPE VI Revitalization funding. Six of the grantees will be funded from FY 2010 HOPE VI appropriations and two awards will come from FY 2011 funding.

This was the only notice provided to the public that HOPE VI funds were available for fiscal year 2011 and more grants would be awarded. Further, the notice was clearly issued after the funds had been awarded and did not provide other public housing authorities the opportunity to apply for the additional grants and funding. Consequently, PIH appeared to have violated the basic intent of the HUD Reform Act. The Act was intended to ensure full public knowledge of the rules used to competitively award assistance under any program or discretionary funds administered by the HUD Secretary.

Application Files Not Available for Review

OPHI did not establish adequate administrative controls to properly maintain application files. On July 25, 2011, more than 60 days after the awards were announced, we requested the application files for review and were told that the files were not ready for review. According to OPHI staff members, they needed time to assemble the files because they were going through a complete record-keeping and filing process. The HUD Reform Act states that applications and other documents should be available for review no less than 30 days following the date on which the award is made. Since the grant awards were announced on May 23, 2011, the complete grant files should have been available for review by July 25, 2011. OPHI staff members indicated that they were unaware of this requirement.

Awards Not Published

PIH's HOPE VI grant program funds were awarded in June 2011. However, the funding decisions were not published in the Federal Register as required by the HUD Reform Act. On February 6, 2012, almost 8 months after the grants had been awarded, the Director of the Urban Revitalization Division confirmed that the awards had not been published but HUD's Grants Management Center staff was working on publicizing the funding decisions in the Federal Register.

Conclusion

PIH adversely impacted the intent of the HUD Reform Act by increasing the funding and the number of grants to be awarded at the end of the grant competition without notifying the public. PIH did not want to hold a competition to award the fiscal year 2011 funds; thus, it ignored its normal NOFA competition

procedures. HUD did not allow potential applicants the opportunity to submit applications in response to these new requirements. PIH should have issued a technical correction to the fiscal year 2010 HOPE VI NOFA, indicating that additional funding was available, and published selection criteria for the awarding of the fiscal year 2011 funds. The Reform Act provides requirements for fair and open competition.

After our review, PIH published a notification in the Federal Register announcing its fiscal year 2010 HOPE VI grant selections and that fiscal year 2011 funds were used to fund the fiscal year 2010 HOPE VI revitalization grants program competition.

The Deputy Assistant Secretary for Public Housing Investment has taken action to implement recommendation 1A. Therefore, we plan to close recommendation 1A upon issuance of the report.

Recommendations

We recommend that the Deputy Assistant Secretary for Public Housing Investments

- 1A Announce the grantee selections (funding decision) for the fiscal year 2010 HOPE VI revitalization grants program competition in the Federal Register and notify the public that fiscal year 2011 funds were used to fund the fiscal year 2010 awards.
- 1B Establish policy and procedures to ensure that increased funding during the grant competition follows the established NOFA procedures and the public is notified.
- 1C Develop and implement procedures to ensure that complete grant files are maintained and contain all documentation to support the basis for funding HOPE VI awards within 30 days as required by the HUD Reform Act.
- 1D Establish procedures to ensure that the grantee selection results are published in the Federal Register in a timely manner.

Finding 2: PIH's Controls Over Its Grant Award Process Had Weaknesses

PIH's controls over its grant award process had weaknesses. Specifically, PIH's final review panel did not provide sufficient detailed justification in the final scoring document to support the change in score. This condition occurred because PIH's quality control process for reviewing and processing applications was not clearly or fully defined. As a result, HUD did not have adequate assurance that the application scoring was accurate or that an adequate audit trail existed to support its determination for funding.

No Established Quality Control Process

According to PIH's Application Review Procedures for the fiscal year 2010 HOPE VI revitalization competition, after an application meets all the funding requirements under the NOFA, the application is then reviewed during the individual rating review (preliminary rating). The grant administrator and the HOPE VI director selected grant managers and team leaders to rate each eligible grant application and assign a primary score for each rating factor. During the individual rating review, one reviewer and one reader were assigned to rate each application. Additional reviews performed during this time were the community and supportive services and design reviews, which were completed by specialized staff.³ The top applicants from the individual rating review were referred to the final review panel for a second review by the senior staff. If the panel had questions about the primary scores, it could either review the application again and revisit or revise scores or have the reviewer clarify scoring as necessary. However, any changes to the primary scores had to be justified and documented in a document entitled "Panel Notes." Information from the Panel Notes was then transferred into the scoring document (strengths and weaknesses (S&W) form), justifying the score.

Our review of the application files disclosed that the final scoring document for three applicants, which was used to support a change in score for these applicants, contained contradictory language. Two applicants' scores were reduced, although the justifications, which included the exact information from the preliminary rating, indicated that the applications should receive the full three points for the rating factor. The justifications then included a sentence detailing why the applicants' scores were reduced. The first applicant's justification was revised to

³ Specialized staff included HOPE VI architects, who performed the design review, and HOPE VI community and supportive services managers, who performed the community and supportive services review for specific rating factors on the applications.

include the sentence, “Two points have been awarded because the units depicted are generic and do not reflect the local architectural tradition.” The second applicant’s justification was revised to include the sentence, “However, there is a weakness which is the isolation of the existing site and also of the proposed site located next to the RR row. According, one point was deducted.”

According to the Deputy Assistant Secretary, the contradictory language on the final scoring document of the first applicant justifying the reduction in score was attributed to a “technical glitch.” PIH stated that the grant administrator incorrectly recorded the Panel Notes into the final scoring document without deleting the justification from the preliminary rating. Essentially, the error was due to a copy and paste malfunction. PIH’s position was that the panel correctly reduced the score and adequately justified the reduction.

The third applicant’s score was increased by one point during the panel review. The justification provided for the increase in score of the third applicant stated, “... [team members] have experience listed, but isn’t specific to the types of redevelopment projects they worked on. However, those firms had previously worked with both CAD [Capital Area Developments, Inc.] and RHA [Housing Authority of the City of Raleigh]. As a result, the applicant scores 4 points.” The NOFA required that the applicant provide a detailed reporting of the qualifications of the developers. In addition, PIH’s Application Review Procedures states, “Personal knowledge of a particular PHA [public housing agency], site or development team member cannot be taken into consideration.” The applicant did not include the detailed qualifications; however, the applicant’s score was increased based on the panel members’ familiarity with the development team members. Also, on this application for a different rating factor, the applicant did not include a budget, which was specifically required by the NOFA to receive a full two points for this rating factor. Although the panel acknowledged that a budget was missing from the application, it increased the applicant’s score for that rating factor from one to two points.

The HOPE VI Director stated that this was the first time PIH had used two separate scoring documents justifying the score changes; in past competitions, there was no final scoring document prepared after the panel review. Instead, the panel recorded the differences in score from the preliminary score in the Panel Notes. However, the Application Review Procedures states, “Reviewers will use their S&W [scoring document] and incorporate any revisions from Reader, Policy Committee, or Panel reviews, as needed, in order to produce the final S&W. As needed, the Reviewers may use their S&W for discussion purposes for the Panel, which will serve as the basis for the final score and final S&W.”

The Deputy Assistant Secretary for Public and Indian Housing stated that the panel served as the quality control mechanism to ensure that the scoring and procedures follow established criteria and the NOFA. However, PIH did not have a documented quality control mechanism to ensure that the final scoring

document contained an accurate reporting of the decisions and justifications made during the panel review. The Deputy Assistant Secretary acknowledged that the panel's reasoning for the point reduction should have been more detailed. After our discussion, the Deputy Assistant Secretary suggested and provided an alternate recommendation: "Review, and revise the competition procedures manual to improve instructions regarding the documents to support the basis for funding competition."

Because a quality control review was not completed before the final scoring document was submitted for recommendation, the final document contained contradictory statements; specifically, the justification provided for the change of score indicated that the applicant's scores should have been higher or lower than those recorded. The error in the conflicting justifications occurred because PIH did not establish an adequate quality control process, assuring that the panel's intention was recorded and justified correctly in the final scoring document. Although the HOPE VI Application Review Procedures does not require a quality control review after the panel review, the HOPE VI Division should have documented that such a review occurred before submitting the applications with final scores for grant (award) recommendation.

Conclusion

HUD had no assurance, based on the final scoring document, that the justification provided for the applicant's score changes was accurate because there was no documented quality control review process in place. PIH needs to enhance and document its quality control procedures for the grant award review process. Improved quality control would help to reduce the possibility of awarding a grant to an ineligible applicant or an applicant's being deemed eligible or ineligible due to contradictory information provided in the final scoring document.

Recommendations

We recommend that the Deputy Assistant Secretary for Public Housing Investments

- 2A Implement a quality control policy to ensure that the information on the final scoring document reflects the information recorded in the final review panel notes; also ensure that the quality control process is validated prior to submitting the grant award recommendations to the Deputy Assistant Secretary.
- 2B Review and revise the competition procedures manual to improve instructions supporting the basis for funding awards.

SCOPE AND METHODOLOGY

We performed the audit based on a hotline complaint. The complaint alleged that PIH, specifically OPHI, selected and awarded fiscal year 2011 HOPE VI funds to grantees who applied for fiscal year 2010 grants but did not publish a NOFA for its fiscal year 2011 funds. The complainant also alleged that OPHI made mistakes in calculating points when scoring applications, which resulted in excluding eligible public housing authorities, while others that were not as competitive or capable were awarded funds.

The audit period covered June 2010 through June 2011. We performed the audit from June 2011 through February 2012 at HUD headquarters in Washington, DC.

To accomplish our objective, we

- Reviewed applicable HUD regulations, including the fiscal year 2010 NOFA relating to the administration of the HOPE VI grant program.
- Conducted interviews with HOPE VI employees to determine their roles and responsibilities during the fiscal year 2010 application review process.
- Obtained an understanding of the HOPE VI grant program.
- Examined 20 of the 36 applications submitted for the HOPE VI grant program under the 2010 NOFA.

PIH received 36 applications under the fiscal year 2010 NOFA. From this universe, 30 applications made it to the rating and ranking phase of the application process. Six applications did not make it to the rating and ranking phase because they did not meet the threshold requirement. From the 36 submitted applications, we selected 20 for review: 8 applications that were funded, 11 that were not funded, and 1 that did not meet the threshold requirement.

For this audit, we did not perform an assessment of computer-processed data because the application and selection process is manual, and no computer-processed data were used to arrive at our conclusions.

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 objectives. 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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws and regulations – Policies and procedures that management has in place to ensure that resource use is consistent with laws and regulations.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- PIH did not have adequate controls to ensure that its grant competition complied with the HUD Reform Act (finding1).

- PIH did not establish a quality control process for reviewing and processing applications (finding 2).


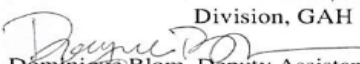
APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

	U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-5000
ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING	APR 8 2013
MEMORANDUM FOR: Donna Hawkins, Acting Director, Inspections and Evaluations Division, GAH	
FROM:	 Dominique Blom, Deputy Assistant Secretary, Office of Public Housing Investments, PI
SUBJECT:	Comments on Discussion Draft Audit Report-PIH's FY 2010 HOPE VI Revitalization Grant Program Competition
<p>Your discussion draft audit report of March 19, 2013 states that PIH did not provide notice or make records available as required by the HUD Reform Act of 1989 during its Fiscal Year 2010 HOPE VI Revitalization Competition (Finding 1). The second finding alleges that PIH's controls over its grant award process had weaknesses (Finding 2).</p> <p><u>Finding 1: PIH did not provide notice or make records available as required by the HUD Reform Act during its Fiscal Year 2010 HOPE VI Grant Competition.</u></p> <p><i>Finding 1: PIH did not provide notice as required by the HUD Reform Act.</i></p> <p>As to this part of Finding 1, the Office of Public Housing Investments (OPHI) previously communicated to the Office of the Inspector General (OIG) in its memo of May 17, 2012 and continues to believe that there has been no violation of the HUD Reform Act of 1989 in adding the FY 2011 HOPE VI funds to the FY 2010 competition and in not issuing an FY 2011 Notice of Funding Availability (NOFA).</p> <p>On April 15, 2011, Congress passed the appropriation to provide \$100 million in FY 2011 funds to the HOPE VI and Choice Neighborhoods programs. On April 22, 2011, Ms. Wilson and I attended a meeting to discuss the FY 2010 HOPE VI awards and the FY 2011 HOPE VI and Choice Neighborhoods funding. Other staff from the Office of Public and Indian Housing (PIH), from the Office of Multifamily Housing and from the Office of General Counsel (OGC), in particular the Office of Legislation and Regulation and the Office of Ethics, Appeals, and Personnel Law, were also in attendance.</p> <p>At this meeting, the group discussed the proposal to add the portion of FY 2011 funds for the HOPE VI program (\$27,944,000) to the FY 2010 HOPE VI competition and its rationale. It also sought feedback from OGC as to whether this would be allowed under the HUD Reform Act. As to the rationale, the following was discussed: The FY 2010 HOPE VI appropriation only allowed for the funding of six applications submitted in response to the FY 2010 NOFA. There were many more high-quality FY 2010 HOPE VI applicants than available funding, and adding the FY 2011 funds would allow PIH to fund two additional high quality grantees or eight grantees in total. Had only six grantees been funded, a total of \$114,229,750 would have been awarded, but a total of \$125,041,220 in FY 2010 funds were available and had to be obligated by</p>	
<p>www.hud.gov esnanol.hud.gov</p>	

Ref to OIG Evaluation

Auditee Comments

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September 30, 2011. Without the addition of the FY 2011 funds to the FY 2010 HOPE VI competition, the FY 2010 funding above \$114,229,750 or \$10,811,470 would have been lost. If these funds were not obligated by this time, they would have been recaptured by the Treasury.

Also, combining the FY 2010 and FY 2011 funds would allow funding to more quickly be distributed to communities who were still hurting from the nationwide housing crisis. Clearing a new NOFA that made available FY 2011 funds, which would have the exact same requirements and limitations as the FY 2010 funds, would have taken several months. Running another competition would have taken an additional 6 to 7 months. A competition would also have utilized significant staff time and resources for the small amount of funding available (\$27,944,000). Therefore, the Department determined that it was not prudent to have another competition when the maximum allowable grant had been \$22,000,000 and when it was likely only one grant could be awarded. OGC, the Office of Legislation and Regulations and the Office of Ethics, Appeals, and Personnel Law, verbally agreed with this determination and had no objection to it at or after the April 22, 2011 meeting in terms of HUD's compliance with the HUD Reform Act. At the time, PIH did not ask OGC to put its concurrence in writing.

As a result of this decision, the Department announced the FY 2010 HOPE VI awards on May 23, 2011. A total of 36 applications had been received by the November 22, 2010 deadline. Applications were scored and selected for funding based on the selection criteria in the FY 2010 HOPE VI Revitalization NOFA. The awards, totaling \$152,729,750, included funds from both the FY 2010 and FY 2011 HOPE VI appropriations. At that time, HUD notified the applicants and Congressional members, and HUD posted the 8 grantees and the amount of each award to the HUD website at:

http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2011/HUDNo.11-097.

Following discussions with OIG as to whether PIH had sought concurrence from OGC for its action in adding FY 2011 funds to the FY 2010 HOPE VI competition, OPHI sought a written legal opinion from OGC. This opinion, which OIG received a copy of during its review of the FY 2010 HOPE VI NOFA process, is entitled "HUD Reform Act Implications of FY 2011 HOPE VI Revitalization Funds" and is contained in Attachment A. It is from Peter J. Constantine, Associate General Counsel for Personnel and Ethics Law, and Camille E. Acevedo, Associate General Counsel for Legislation and Regulation, and is dated September 22, 2011. This memorandum reviews PIH's decision and rationale for adding FY 2011 funds to the FY 2010 competition. It states, "As we advised at the time PIH made this decision, we concluded that these considerations justified folding the FY 2011 funds in the existing competition because the NOFA for the FY 2010 HOPE VI Revitalization program ensured the accountability and integrity of the grant process. We therefore concurred with PIH's decision."

Therefore, based on the rationale discussed above and accountability and integrity of the process adhered to for selecting grantees through the FY 2010 NOFA, it was not necessary for PIH to distribute a small amount of FY 2011 funding through an entirely new NOFA process. Therefore, PIH did not violate the HUD Reform Act as it pertains to the award of FY 2011 funds through the FY 2010 NOFA.

Ref to OIG Evaluation

Auditee Comments

3

Finding 1: PIH did not make records available as required by the HUD Reform Act.

OIG also comments that OPHI did not establish adequate administrative controls to properly maintain application files and that on July 25, 2011, more than 60 days after the awards were announced, applications files were not ready for review. The HUD Reform Act requires that applications and other documents should be available for review within 30 days. OIG concludes that "HUD had no assurance that the application files contained all documentation and other information regarding the basis for its funding decision."

OPHI wishes to state that the competition process is quite complex with several stages of review and a number of different reviewers. There was one competition administrator for the FY 2010 competition whereas in previous years, there had been a competition administrator and an assistant to ensure the completion of all tasks. At the time of the FY 2010 HOPE VI competition, OPHI was also running the Choice Neighborhoods Planning and Implementation competitions at the same time, which meant that one person was assigned to work on the HOPE VI competition and one person was assigned to work on both Choice Neighborhood Planning and Implementation competitions. This was a unique year, and as HOPE VI does not currently have funding, OPHI does not expect to have to take on the substantial task of running two major competitions at the same time.

During the FY 2010 HOPE VI competition, the HOPE VI administrator had to assemble information for the competition from a number of HUD sources and manage multiple reviews (screening, threshold review, scoring review, and panel review) and a number of different reviewers (screener, main scorer, CSS reviewer, architectural reviewer, reviewer from Section 3 office and panel reviewers). This was a gigantic task for one person to accomplish. Following the competition, all information and reviews had to be correctly assembled in the application folder, which was time consuming. While OPHI will change its procedures in the future to comply with the HUD Reform Act's 30 day requirement, we do not believe, as OIG concludes, that HUD had no assurance that the files had all of the information needed regarding its funding decisions. Ensuring that all information was assembled correctly was time consuming and assured that OPHI did have the basis for its funding decisions.

Finding 1: The HOPE VI funding decisions were not published in the Federal Register as required by the HUD Reform Act.

HUD regulations at 24 CFR part 4.7, Notice of Funding Decisions, states that HUD will publish a Notice in the Federal Register at least quarterly to notify the public of all decisions made by the Department to provide assistance subject to Section 102(a) of the HUD Reform Act (grants provided through competitions).

The discussion draft audit report states that on February 6, 2012, almost 8 months after the grants had been awarded, the awards had not yet been published. However, HUD's Grants Management Center staff was working on publicizing the funding decisions in the Federal Register. On March 20, 2012, PIH did publish in the Federal Register, Volume 77 Issue 54, a notification announcing the FY 2010 HOPE VI Revitalization Grant awardees and the use of FY 2011 funds for the FY 2010 HOPE VI grant competition.

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Comment 1

In creating Management Decisions for Finding 1, OPHI will take into consideration, the feedback/comments given during meetings and the recommendations that OIG has provided to our office. Following the HUD Reform Act regulations at 24 CFR part 4.5(b), OPHI will develop and implement procedures to ensure that grants files are available and that all documentation and other information to support the basis is available within 30 days of award announcements. OPHI will also develop and implement procedures to ensure that pursuant to 24 CFR part 4.7 (a), the notice of funding decisions is to occur at least quarterly and in a timely manner as recommended in the report.

Finding 2: PIH's controls over its grant award process had weaknesses.

The draft audit report states that the grant award process had weaknesses. It went on to elaborate that PIH's final review panel did not provide sufficient detailed justification in the final scoring documents to support several changes in application scores made by the panel.

Comment 2

As to Finding 2, along with updating the policy and procedures based on Finding 1, OPHI will also update the procedures, providing clearer directions for the panel review stage. The discussion draft audit report recommends that OPHI implement a quality control policy ensuring that all final documents reflect the final panel notes and also that the quality control process is validated prior to submitting the grant award recommendations to the Deputy Assistant Secretary.

Please note that OPHI does not expect that Congress will provide additional funding to run a future HOPE VI competition and that future funding requests will be for Choice Neighborhoods. Therefore, OPHI will only review and revise the competition procedures for Choice Neighborhoods and not for the HOPE VI program.

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Auditee Comments

Attachment A



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-0500

OFFICE OF THE GENERAL COUNSEL

SEP 22 2011

MEMORANDUM FOR: Susan Wilson, Public Housing Revitalization Specialist, Office of Public and Indian Housing, PIU

FROM: Peter J. Constantine, Associate General Counsel for Personnel and Ethics Law, CAGE *PK*
Camille E. Acevedo, Associate General Counsel for Legislation and Regulation, CAD *CA*

SUBJECT: HUD Reform Act Implications of FY2011 HOPE VI Revitalization funds

This memorandum is in response to your request, pursuant to an inquiry from the Office of the Inspector General, for a written summary of the concurrence by the Office of General Counsel with the Office of Public and Indian Housing's (PIH) decision to fold FY2011 HOPE VI Revitalization funds into the recently completed competition for FY2010 HOPE VI Revitalization funds. The FY2010 HOPE VI Revitalization NOFA made available approximately \$124,000,000, which fully funded the applicants with the six highest scores with some funding left over. Funds appropriated for HOPE VI Revitalization in FY 2011 totaled \$100,000,000, which was subject to the FY2011 2 percent across-the-board cut, and which was 50 percent less than the funds appropriated in FY 2010. The 2011 appropriations act also authorized that up to \$65,000,000 of FY2011 HOPE VI funding could be used for the Choice Neighborhoods Initiative, and up to \$10,000,000 was available for technical assistance and contract expertise. HUD made the decision to use these funds for Choice Neighborhoods and technical assistance. Accordingly, \$27,944,000 was available for FY2011 HOPE VI Revitalization funds, as well \$244,530 from no-year HOPE VI funds, and the addition of this funding to the 2010 HOPE VI competed funding allowed the Department to fully fund the two applicants with the next highest scores. In order to fairly distribute funds that had a latter use-by date, the FY2011 money was distributed evenly among all the grantees. At the time, you sought guidance from the Office of General Counsel. We reviewed and verbally concurred with PIH's decision.

The purpose of the notice and competition requirements of Section 102 of the HUD Reform Act is to ensure accountability and integrity in the way in which the Department makes assistance available. See 24 CFR § 4.1. In this case, the Department issued a NOFA for the FY 2010 HOPE VI Revitalization program and, based on several programmatic considerations, decided to fold the FY2011 money in that competition. Among other things, PIH considered that, other than the use-by date, the FY2011 funds have the exact same requirements and limitations as the FY2010 funds; the FY2011 funds are only a small fraction of the FY2010 funds; and the program would lose the remainder of the FY 2010 funds if the Department did not find additional funds sufficient to fund at least one or two more applicants. As we advised at the time PIH made this decision, we concluded

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that these considerations justified folding the FY 2011 funds in the existing competition, because the NOFA for the FY 2010 HOPE VI Revitalization program ensured the accountability and integrity of the grant process. We therefore concurred with PIH's decision.

OIG Evaluation of Auditee Comments

Comment 1 We agree with the Office of Public and Indian Housing's proposed action to develop and implement procedures to ensure that grant files are available and that all documentation and other information to support the decision is available within 30 days of the award announcements. We also agree with the proposed action to develop and implement procedures to ensure that the notification of the funding decisions occurs in a timely manner, and at least quarterly.

Subsequent to our review, PIH took corrective action by publishing a notification in the Federal Register on March 20, 2012 announcing that fiscal year 2011 funds were used to fund the fiscal year 2010 HOPE VI Revitalization Grants Program competition and its fiscal year 2010 HOPE VI grant selections.

Comment 2 Although the Office of Public Housing Investments does not expect future funding for the HOPE VI Revitalization Grants Program, we are encouraged by its agreement to implement the cited recommendation for its Choice Neighborhoods program. During the audit resolution process, the Office of Public Housing Investments should provide the revisions made to the Choice Neighborhoods competition procedures to support the implementation of recommendation 2B.