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U.S. DEPARTMENT
OF HOUSING
AND URBAN
DEVELOPMENT

Opportunities for Improvement within CPD's Risk Management Process for Hurricane Sandy Grants

Program Evaluations Division

MEMORANDUM

March 29, 2017

To: Cliff Taffet
General Deputy Assistant Secretary for Community
Planning and Development, D

From: 
Brian T. Pattison
Assistant Inspector General for Evaluation, G



U.S. DEPARTMENT
OF HOUSING
AND URBAN
DEVELOPMENT

Subject: Opportunities for Improvement in CPD's Risk Management Process for Hurricane Sandy Grants, 2016-OE-0004S

Please see the attached final report on our evaluation of risk management process for Hurricane Sandy grants at the U.S. Department of Housing and Urban Development (HUD). Our evaluation assessed the risk analysis process for Hurricane Sandy grants performed by HUD's Office of Community Planning and Development (CPD). We identified five areas in which CPD could improve the risk analyses process and made four recommendations designed to help CPD and HUD address these areas.

We have included comments on our draft report from the Office of Community Planning and Development (CPD) and Disaster Recovery and Special Issues (DRSI) Division in appendix B. DRSI agreed with the two recommendations directed toward them and provided proposed actions to be taken to satisfy the recommendations. CPD did not agree with two draft report recommendations. We look forward to receiving additional information on DRSI's plans. Within 90 days, CPD should provide us with details on their proposed management decision for their respective recommendations as well as target dates for implementing corrective actions.

Attachment



Executive Summary

Opportunities for Improvement in CPD's Risk Management Process for Hurricane Sandy Grants

Report Number: 2016-OE-0004S

March 29, 2017

Why We Did This Evaluation

The Office of Community Planning and Development (CPD) manages \$15.2 billion in disaster recovery funding appropriated by Congress in the Disaster Relief Appropriations Act of 2013 (Sandy Supplemental). CPD distributed the funds to 34 grantees as Community Development Block Grants-Disaster Recovery (CDBG-DR).

Since fiscal year 2014, the Office of Inspector General, Office of Audit identified nearly \$450 million of questioned costs related to CPD's administration of Hurricane Sandy grants. This large dollar amount presents a legitimate concern about the potential waste, fraud, and abuse of funds CPD distributed to State and local jurisdictions affected by Hurricane Sandy.

A sound risk management process enables an organization to allocate a larger share of monitoring resources to activities that pose the greatest risk to the financial integrity of the organization's programs. We evaluated CPD's risk management process to identify opportunities to improve CPD's oversight of Hurricane Sandy disaster grant management.

Results of Evaluation

CPD uses a risk analysis process to rank grantees that pose the greatest risk to the integrity of its programs. According to CPD, the risk analysis results guides how the monitoring phase of the risk management process is conducted. After CPD management certifies the risk analysis results, management develops a monitoring strategy. By monitoring grantees, CPD aims to ensure that a grantee performs and delivers on the terms of the grant while reducing the possibility of fraud, waste, and mismanagement.

We observed that (1) the risk analysis worksheet did not consider risk related to performance outputs, (2) the risk analysis did not consider the likelihood of risk events occurring, (3) no clear correlation between the risk analysis and monitoring existed, (4) CPD made limited use of data analytics in its risk management process, and (5) CPD staff were not trained to conduct a risk analysis.

Recommendations

We recommend that the Director for the Office of Field Management (1) ensure that the CDBG-DR risk analysis worksheet includes risk factors that show the measurement of performance outputs to determine what activities were completed, and (2) update the risk analysis guidance for CDBG-DR grants to include the assessment of the likelihood of risk occurrence to help management identify which critical risks to address during monitoring. We also recommend that the Director for the Disaster Recovery and Special Issues Division ensure that monitoring strategies correlate to the high-risk areas identified during the risk analysis and are in compliance with the four central categories identified in HUD's Monitoring Desk Guide.

Finally, we recommend that the General Deputy Assistant Secretary for the Office of CPD ensure that CPD personnel that plan for, award, and manage grants and other forms of financial assistance receive formal risk analysis training.

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Background

In late October 2012, Hurricane Sandy devastated portions of the Mid-Atlantic and Northeastern United States. More than 650,000 homes were damaged or destroyed, and hundreds of thousands of businesses were damaged or forced to close, at least temporarily. On January 29, 2013, the President signed the Disaster Relief Appropriations Act of 2013 (Sandy Supplemental). The Act appropriated about \$50 billion in disaster recovery funding to 19 Federal agencies.¹ Of this, HUD received approximately \$15.2 billion for allocation to grantees for expenses related to disaster relief, long-term recovery, restoration of housing and infrastructure, and economic revitalization.² To receive HUD funding, impacted States or cities were required to submit an action plan to HUD that included criteria for funding eligibility and a detailed description of how they would use the funds allocated to them to address the needs of distressed communities. Once HUD approved the action plans, the grantees (5 States and 1 city as shown in Table 1) could begin distributing HUD-awarded funds toward disaster recovery activities and services.

Table 1 - Hurricane Sandy Disaster Grantees

Grantees	Grant amount
New York	\$4,416,882,000
New Jersey	\$4,174,429,000
Connecticut	\$159,279,000
Maryland	\$28,640,000
Rhode Island	\$19,911,000
New York City	\$4,213,876,000
Total	\$13,013,017,000

Source: Federal Register, Volume 79, No. 200, October 16, 2014

HUD's Office of Community Planning and Development (CPD) manages the \$15.2 billion appropriated under the Sandy Supplemental. CPD distributed the funds to 34 grantees as Community Development Block Grants-Disaster Recovery (CDBG-DR) to rebuild impacted areas and provide crucial seed money to start the recovery process. Six of the thirty four grants were made to address Hurricane Sandy-related damage, and the remaining 28 were for other disasters. Table 1 lists Hurricane Sandy grantees and the amounts they received. CPD assigned general program administrative responsibilities for CDBG-DR grants to the Office of Block

¹ GAO-15-515, Hurricane Sandy: An Investment Strategy Could Help the Federal Government Enhance National Resilience for Future Disasters, July 2015.

² In accordance with Section 251A of the Balanced Budget and Emergency Deficit Control Act, as amended (2 U.S.C. 901a), the President reduced the funding for CDBG-DR grants under the Appropriations Act (Sandy Supplemental) from \$16 billion to \$15.2 billion on March 1, 2013.

Grant Assistance, Disaster Recovery and Special Issues (DRSI) Division. According to the funds control plan for CDBG-DR grants, DRSI assumed direct responsibility for the administration and monitoring of CDBG-DR grants of \$500 million or more. As a result, DRSI administers New York State, New York City, and New Jersey's Hurricane Sandy grants. CPD field offices assumed responsibility for grants of less than \$500 million, and administers the Hurricane Sandy grants made to Connecticut, Maryland, and Rhode Island. Regardless of lead responsibility for a CDBG-DR grant, DRSI staff provides technical assistance, program guidance, and support to field office CPD staff and grantees implementing their recovery programs.

CPD's Risk-Based Approach to Oversight

Risk management includes the identification and assessment of potential risk variables that may have a negative impact on the execution of a program. By identifying and assessing risk, program offices are able to target resources more effectively, monitor known risks, and mitigate adverse program effects.

HUD's risk management policies are in the Departmental Management Control Handbook 1840.1, Revision 3 and in the HUD Monitoring Desk Guide. Together, these documents provide guidance on determining risk and the level of HUD monitoring necessary to mitigate the risk. Based on these policies, HUD adopted a risk-based approach to overseeing and monitoring its programs to ensure its resources were focused on those program functions that posed the highest risk and were the most susceptible to fraud, waste, and mismanagement. CPD provides additional guidelines and operating procedures for disaster grantees to ensure staff, known as CPD evaluators, are using a consistent approach to mitigate risk. CPD Notice 14-04, issued March 1, 2014, is the most current policy that defines CPD's risk analysis procedures.

CPD's Risk Management Process for Hurricane Sandy Grants

CPD developed a risk management process for Hurricane Sandy grants based on HUD's risk management policies. CPD's risk management process included two phases: (1) risk analysis and (2) monitoring.

According to CPD guidance, CPD's risk analysis process ranks grantees to identify those that pose the greatest risk to the integrity of its programs. For Hurricane Sandy grants managed by CPD field offices, the risk analysis process is used to both rank grantees and determine program activities to monitor. However, the Hurricane Sandy grants managed by DRSI are automatically considered high-risk because those grants are \$500 million or more. As a result, DRSI uses the risk analysis process to identify the program activities to be reviewed during monitoring for these three grants.

After the risk analyses are complete, CPD management conducts quality control reviews of each risk analysis and certifies the results. After certification, CPD develops a monitoring strategy. According to HUD policy, the monitoring strategy describes

- which grantees will be monitored;

- the method and type of monitoring for each grantee such as on-site or remote, in-depth, or limited;
- the program activities to be reviewed during monitoring visits, such as citizen complaints or the grantee’s capacity to adequately manage the grant; and
- the staff resources available for monitoring.

After the monitoring strategy is developed, CPD evaluators conduct onsite monitoring to ensure that grantees are complying with HUD policies and Federal regulations. By monitoring grantees, CPD aims to ensure that a grantee performs and delivers on the terms of the grant, while reducing the possibility of fraud, waste, and mismanagement.

Findings

Risk Analysis Worksheet Did Not Consider Risk Related to Performance Outputs

As required by HUD’s Monitoring Desk Guide, in fiscal year (FY) 2014, CPD’s disaster risk analysis worksheet included risk factors in four central categories:³ These are:

1. **Financial:** the extent to which the grantee accounts for and manages financial resources in accordance with approved financial management standards. Financial risk also assesses the amount of potential monetary exposure to the Department.
2. **Management:** the extent to which the grantee has the capacity to carry out disaster recovery programs in accordance with requirements.
3. **Satisfaction:** the extent to which clients express satisfaction or dissatisfaction with the delivery of program services.
4. **Services:** the extent to which the grantees effectively and efficiently deliver services to intended beneficiaries/clientele.

According to CPD Notice 12-02, under the first iteration of the risk analysis worksheet for disaster grants, CPD captured “financial,” “management,” “satisfaction,” and “services” as risk factors on their risk analysis worksheet. In particular, the sub-factor 4A under the “services” risk factor, measured performance outputs by determining whether the grantee delivered services to its intended beneficiaries. Performance outputs were also assessed under Factor 2D “Completion of Activities” in which CPD evaluators assessed the grantee’s ability to complete its assigned activities, such as building housing units or developing public infrastructures. However, beginning in FY 2015, based on new guidance in CPD Notice 14-04, CPD changed the risk analysis worksheet and combined the “services and satisfaction” risk factors. Under the current structure of the worksheet, the “services” risk factor no longer accounts for performance outputs, nor is this information captured in any other factor on the risk analysis worksheet (See Table 2).

³The HUD Monitoring Desk Guide includes five central categories for risk factors – financial, management, services, satisfaction and physical. However, according to CPD Notices 12-02 and 14-04, the physical risk factor is not applicable to disaster grants.

CPD managers stated that they made changes to the worksheet to put more emphasis on financial and grant management which they believed were the root cause of grantee performance problems. In addition, CPD's General Deputy Assistant Secretary stated that CPD evaluators considered outputs when they reviewed grantee quarterly performance reports. Despite this viewpoint, we are concerned that removing risk factors that directly assess performance outputs, decreased HUD's ability to verify that grant funds were used to revitalize Hurricane Sandy affected communities.

Table 2 - Changes in CPD Disaster Risk Factors between FYs 2014 and 2015/16

FY 2014 Risk Factors	FY 2015/16 Risk Factors
Factor 1 – Financial (Max Score 47)	Factor 1 – Grant Management (Max Score 52)
1A. CDBG Disaster Recovery Grant(s) Amount 1B. Overall Benefit 1C. Affordable Housing 1D. Public Benefit 1E. Program Income 1F. Disaster Recovery Enhancement Fund 1G. Revolving Loan Activities	1A. Grantee Reporting 1B. Grantee Staff Capacity & Program Design 1C. Grantee Program Complexity 1D. Grantee Findings & Sanctions (OIG) 1E. Grantee's Management of Subrecipients 1F. Grantee Cross-Cutting Requirement Compliance
Factor 2 – Management (Max Score 34)	Factor 2 – Financial Management (Max Score 45)
2A. Capacity 2B. Compliance with Program Requirements 2C. Use of Subrecipients 2D. Completion of Activities	2A. Grantee Financial Staff Capacity 2B. Monitoring Finding Resulting in Repayment or Grant Reduction 2C. CDBG-DR Grant Amount 2D. Grantee Program Income 2E. Grantee A-133 Audits 2F. Grantee's Portfolio Includes RLF(s) or Float-Funded Activities 2G. Disaster Recovery Enhancement Fund
Factor 3 – Satisfaction (Max Score 4)	Factor 3 – Services & Satisfaction⁴ (Max Score 3)
3A. Citizen Complaints	3A. Grantee Citizen Complaints or Negative Media Exposure 3B. Grantee Responsiveness
Factor 4 – Services (Max Score 15)	
4A. CDBG Activities	

Source: CPD Notice 12-02 and CPD Notice 14-04

Recommendation

We recommend the Director for the Office of Field Management:

⁴ Although CPD changed the title of factor 3 to Services & Satisfaction in the FY 2015 worksheet, sub factors 3A and 3B only relate to satisfaction. Therefore, despite factor 3's title, a grantee's ability to deliver services to intended beneficiaries is not included in the risk analysis.

1. Ensure that the CDBG-DR risk analysis worksheet includes risk factors that show the measurement of performance outputs to determine completed activities.

Risk Analysis Did Not Consider the Likelihood of Risk Events

HUD's Departmental Management Control Handbook 1840.1 – Chapter 2 states the risk analysis should assess risk severity (high, medium, and low) as well as the likelihood of the risk occurring. Additionally, the Office of Management and Budget (OMB) Circular A-123 states there should be a clearly structured process in which likelihood and impact are considered when assessing risk. However, our review of CPD Notice 14-04 and CPD's risk analysis worksheets showed that neither consider the likelihood of future risk occurrence.

Figure 1 shows an example of the relationship between severity of risk and the likelihood that it might occur. The relationship between these factors tells management, which is the most critical risks to address. For example, if a factor on the risk analysis worksheet were to have a medium severity rating, but a low likelihood of occurring (the green LM box), it might require a lower level of monitoring than factors that fall in the red or yellow boxes. By not assessing both the severity and likelihood of risk occurring, CPD may not be appropriately targeting its monitoring resources on high-risk areas.

Figure 1 - Example of a Risk Prioritization Matrix

		Low	Medium	High
S E V E R I T Y	High	LH	MH	HH
	Medium	LM	MM	HM
	Low	LL	ML	HL
		1% to 10%	10% to 50%	> 50%
		LIKELIHOOD		

Source: Office of Risk Management, Housing, HUD (November 2014)

Recommendation

We recommend the Director for the Office of Field Management

2. Update the risk analysis guidance for CDBG-DR grants to include the assessment of the likelihood of risk occurrence to help inform management which critical risks to address during monitoring.

No Clear Correlation Between Risk Analysis and Monitoring Existed

CPD's Notice 14-04 states that the purpose of the risk analysis is to identify high-risk grantees and potential areas of concern that need to be addressed during monitoring visits. Additionally, CPD's Monitoring Handbook 6509.2 states that monitoring efforts should be centered on the results of the risk analysis. To tie the risk analysis results to monitoring, CPD's Monitoring Handbook 6509.2 requires the development of a monitoring strategy to identify the high-risk grantees and program areas to be monitored.

We reviewed the available fiscal years 2014 and 2015 risk analyses and monitoring reports for the six Hurricane Sandy grantees and the fiscal year 2015 monitoring strategy for three Hurricane Sandy grantees – New York State, New Jersey and New York City. We found no clear correlation between the high-risk areas identified during the risk analyses by CPD evaluators and the subsequent monitoring. The Acting Deputy Assistant Secretary for Grant Programs told us that, regardless of the results of the risk analysis process, the CPD evaluators typically focus on four CPD management priority areas during monitoring – financial management, eligibility, national objectives, and environmental factors, which are not the same as the four central categories outlined in HUD's Monitoring Desk Guide. In addition, he stated that it is difficult to address many of the high-risk areas during monitoring visits because the CPD evaluators are focusing on the four priority areas previously mentioned. If CPD evaluators' monitoring is not driven by the results of the risk analysis process, the evaluators could potentially focus on lower risk areas and not gain the full benefit of HUD's risk management process.

During our review of the risk analysis worksheets and interviews with CPD evaluators, we noted other concerns that contribute to an unclear correlation between risk analysis and monitoring. As an example, the timeframe between completing the risk analyses and executing the monitoring could span several months. During the intervening period, other higher risk areas could surface or the high-risk areas that surfaced in the initial risk analysis could be closed or mitigated. Since monitoring strategies are not updated with new information throughout the year, we are concerned that there is not a clear correlation between the risk analysis and monitoring phases.

Finally, Cloudburst Group, a consulting firm CPD hired to assess its risk management process, issued a report in 2012 that also identified weak correlations between the risk analysis and monitoring phases.⁵ This correlation is critical to the effectiveness and delivery of CPD's programs. Without a clear correlation between the risk analysis and monitoring phases, CPD cannot ensure monitoring efforts are capturing grantee activities that pose the greatest risk.

Recommendation

We recommend the Director for the DRSI Division

⁵ *Task 5: Future State Work Plan and Final Costing – FINAL REPORT*, Cloudburst Group, August 24, 2012.

3. Ensure that monitoring strategies correlate to the high-risk areas identified during the risk analysis and are in compliance with the central risk factor categories identified in HUD's Monitoring Desk Guide.

CPD Made Limited Use of Data Analytics in its Risk Management Process

OMB Circular A-123 identifies the use of data analytics as an emerging best practice to ensure relevant data are used to properly conduct risk analyses and prepare monitoring strategies. We observed that CPD could benefit from an expanded use of data analytics to capture the streams of data in multiple HUD and CPD information systems in one central location. This and making the data accessible to staff would allow CPD to uncover insights and trends that could improve its risk analysis and monitoring efforts. Additionally, the Cloudburst Group suggested that CPD make its data more accessible and usable by creating an annual monitoring report that rolls up the data in the individual monitoring reports. The consultant said that an annual report, with monitoring findings and concerns sorted by program or activity type, geographic region, type of grant, etc., could present information that CPD could use to strategically target its monitoring and identify trends over short and long terms.

In 2012, the Cloudburst Group told CPD that the "...risk analysis process should provide for continual assessment throughout the year not only to assess risk for monitoring but to identify and mitigate potential risk that could lead to noncompliance." Currently, CPD completes an annual risk analysis on its grantees. However, by the time a monitoring visit is made 6-8 months later, the issues identified in the risk analysis may no longer be current. Continuous risk identification using data analytics would empower CPD to identify new or emerging risks, changes in existing risks, or both.

If CPD leveraged the power of data analytics, it could better focus its monitoring resources on high-risk areas. CPD management said they are in the initial stages of developing a framework to make better use of data. CPD's General Deputy Assistant Secretary stated that HUD envisions having an enterprise-wide grant management system in the future, which would capture grant-related information from several disparate HUD information systems. The enterprise-wide system would allow grant managers throughout the department to access this centrally maintained grant data for planning, assessing risks, and monitoring purposes. He also stated that in light of HUD's plans for an enterprise-wide system, CPD does not believe it could obtain funding for a CPD-only approach to data analytics.

CPD Staff Were Not Trained to Conduct Risk Analysis

OMB Circular A-123 requires that staff involved in planning for, awarding and managing grants and other forms of financial assistance, receive training on fraud indicators and risk. Annually, CPD evaluators participate in a kick-off phone call, which covers policy updates and guidance related to CPD's risk management process. However, CPD's six Hurricane Sandy evaluators told us they did not receive formal training on risk management. Although CPD's General Deputy Assistant Secretary stated that the staff would welcome more risk training, there are

limited funds available to conduct this training. Considering the large number of temporary evaluators within DRSI and the large amount of funding in CPD's Hurricane Sandy grants portfolio, we believe that CPD evaluators could better identify and assess potential risk variables if they received formal training in this area.⁶

Recommendation

We recommend the General Deputy Assistant Secretary for CPD:

4. Ensure that CPD personnel that plan for, award, and manage grants and other forms of financial assistance receive formal risk analysis training.

Using Enterprise Risk Management (ERM) to Strengthen CPD's Risk Management Process

HUD and CPD have a unique opportunity to improve CPD's risk management process for Hurricane Sandy grants as the agency implements ERM.⁷ According to the ERM Playbook, jointly published by the Chief Financial Officers Council and the Performance Improvement Council, ERM is an effective agency-wide approach to addressing the full spectrum of the organization's significant risks. It would do this by considering the risks as an interrelated portfolio, rather than addressing risks only within silos.

According to the key principles of the ERM Playbook, managing risk is an organization-wide responsibility. To achieve that, an agency should provide the training, tools, and resources to assist those employees who are responsible for assessing and managing risk. Because many of the opportunities for improvement described in our report are the result of a lack of formal risk training as well as the absence of any experienced risk professionals in CPD, embracing and implementing the key ERM principles could strengthen CPD's risk management process.⁸

⁶ Eight of DRSI's 14 evaluators are term employees hired under Public Law 113-2. Their term appointment ends September 30, 2017.

⁷ OMB Circular A-123 requires that agencies implement ERM practices to improve accountability and effectiveness of agency programs.

⁸See prior HUD OIG Office of Evaluation report 2014-OE-0002, "Risk Based Enforcement Could Improve Program Effectiveness", February 12, 2016, that addressed HUD's opportunity to incorporate enforcement into the agency's ERM process.

Appendixes

Appendix A – Scope and Methodology

To address our objective of assessing CPD’s risk management process to identify opportunities for improvement, we reviewed the following applicable laws and Federal regulations, HUD and CPD-specific policies and procedures addressing the risk management process, and previous reports from entities external to CPD:

- Public Law 113–2, Disaster Relief Appropriations Act, January 2013
- OMB Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, July 2016
- Playbook: Enterprise Risk Management for the U.S. Federal Government, July 2016
- HUD Handbook 1840.1 Rev-3, Departmental Management Control Program, February 1999
- HUD Monitoring Desk Guide
- HUD Handbook 6509.2 REV-6 CHG-2, Community Planning and Development Monitoring Handbook, December 2015
- CPD Notice 14-04: Implementing Risk Analyses for Monitoring Community Planning and Development Grant Programs in FY 2015 and 2016, March 2014
- CPD Notice 13-009, Implementing Risk Analyses for Monitoring Community Planning and Development Grant Programs in FY 2014, October 2013
- CPD Notice 12-02, Implementing Risk Analyses for Monitoring Community Planning and Development Grant Programs in FY 2012 and 2013, January 2012
- GAO-16-497: Department of Housing and Urban Development: Actions Needed to Incorporate Key Practices into Management Functions and Program Oversight, July 2016
- Task 5: Future State Work Plan and Final Costing – Final Report, Cloudburst Group, August 24, 2012

We also compared available risk analyses to monitoring reports for six Hurricane Sandy grantees from fiscal years 2013 through 2016. In addition, we reviewed the 2015 monitoring strategy for three Hurricane Sandy grantees – New York State, New Jersey and New York City. Finally, we conducted interviews with personnel involved in the management of Hurricane Sandy and other disaster relief grantees. We met with

- Director of CPD’s Office of Field Management,
- Director of CPD’s Office of Block Grant Assistance, DRSI,
- Five CPD specialists assigned to CPD’s Office of Block Grant Assistance, DRSI,
- Three CPD specialists assigned to the Office of Field Management,
- CPD General Deputy Assistant Secretary, and
- Acting Deputy Assistant Secretary for Grant Programs

We completed this evaluation under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency (January 2012).

Appendix B – Agency Comments and OIG Response

Office of Community Planning and Development Comments

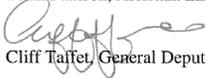


OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

FEB 22 2017

MEMORANDUM FOR: Brian Pattison, Assistant Inspector General for Evaluation, GAH

FROM: 
Cliff Taffet, General Deputy Assistant Secretary, D

SUBJECT: Office of Inspector General (OIG) Draft Report: 2016-OE-0004S
Opportunities for Improvement in CPD's Risk Management
Process for Hurricane Sandy Grants

The Office of Community Planning and Development (CPD) reviewed the subject draft evaluation report and offer the following comments. This report focused on the risk analysis process for Hurricane Sandy Community Development Block Grant disaster recovery (CDBG-DR) grants.

As a general matter, the risk analysis allows CPD to assess risk for CDBG-DR grantees and other CPD grantees. However, on-site and remote monitoring, site visits, and the review of each grantee's Quarterly Performance Report are the tools that enable CPD to verify that recovery activities have occurred. The Department's Handbook 1840.1, Rev-3, *Departmental Management Control Program*, requires the development of risk-based rating systems for all programs. CPD implements the risk-based rating system for all CPD program using the annual risk analysis. The purpose of the risk analysis is to provide the information needed for CPD to effectively target its resources to grantees that pose the greatest risk to the integrity of CPD programs, including *identification of the grantees to be monitored on-site and remotely*, the program areas to be covered, and the depth of the review. The selection process should result in identifying those grantees and activities that represent the greatest vulnerability to fraud, waste, abuse, and mismanagement.

The major steps for implementing risk-based monitoring include:

- Developing risk-based rating systems for program grantees;
- Rating and selecting grantees for monitoring;
- Identifying program risks and setting monitoring objectives; and
- Documenting the process and recording the rationale for choosing grantees.

In other words, the risk analysis is not the tool that measures CDBG-DR grantee's recovery progress, but it directs the resources that allow HUD to verify performance and progress through monitoring.

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Appendix B – Agency Comments and OIG Response (continued)

Reference to OIG Response

Comment 1

Office of Community Planning and Development Comments

2

OIG Observation # 1: Risk Analysis Worksheets Did Not Consider Risk Related to Performance Outputs

The OIG concluded that CPD's removal of risk factors that measured performance outputs from the risk analysis worksheet decreased HUD's ability to verify that grant funds were used to help Hurricane Sandy affected communities recover. The OIG recommends that CPD's Office of Field Management ensure that the CDBG-DR risk analysis worksheet includes risk factors that show the measurement of performance outputs to determine completed activities.

HUD Comment: The OIG's evaluation report does not accurately reflect how monitoring, quarterly performance reports, and site visits allow CPD to verify that grant funds were used to help Hurricane Sandy communities. Additionally, including risk factors that show the measurement of performance outputs duplicates the existing tools CPD uses to assess grantee performance.

Each CDBG-DR grantee submits Quarterly Performance Reports (QPRs) to their assigned HUD representative using the Disaster Recovery Grant Reporting system (DRGR). HUD review and approval is required for each QPR. QPRs are required and enable remote review of grantee data to allow HUD to assess compliance and risk. The QPR identifies the grantee's CDBG-DR activities and projects and HUD uses the data to analyze the risk of grantee's programs and to determine priority for the Department's monitoring. QPRs must also be posted to the CDBG-DR grantee's website for public review.

Each QPR includes information about the uses of funds in activities identified in the CDBG-DR grantee's DRGR action plan during the applicable quarter. The QPR information includes project name, activity, location, and national objective; funds budgeted, obligated, drawn down and expended; the funding source and total amount of any non-CDBG-DR funds to be expended on each activity; beginning and actual completion dates for completed activities; achieved performance outcomes, such as number of housing units completed or number of low- and moderate-income persons served; and the race and ethnicity of persons assisted under direct-benefit activities.

In addition to the remote review of grantee progress via the QPR, HUD conducts on-site monitoring reviews. When CDBG-DR grantees are identified for a monitoring review, HUD staff are required to prepare a monitoring strategy identifying the activities/projects to be included in the compliance and progress review. The strategy also identifies other topics that impact recovery, such as overall management, action taken in response to open OIG audits, and follow-up on citizen complaints. During monitoring, HUD staff interview CDBG-DR grantee staff, review the grantee's activity files and other resources that allow HUD to identify beneficiaries and verify compliance with CDBG program requirements. Based on the review, HUD identifies Findings (if the grantee is not compliant with a specific action), Concerns (if the grantee's action are compliant, but would result in noncompliance if continued or if actions might contribute to management improvements); or exemplary practices if the grantee has an activity or practice that is notable and could be replicated. Occasionally, HUD's on-site monitoring reviews includes site visits that allow HUD staff to see the CDBG-DR projects and activities that are underway or are completed.

Appendix B – Agency Comments and OIG Response (continued)

Reference to OIG Response

Office of Community Planning and Development Comments

Comment 2

Comment 3

3

CPD does not agree that the CDBG-DR risk analysis worksheet needs to be revised to show the measure of performance outputs to determine completed activities, given the process described above that it uses to monitor the disaster grantees.

OIG Observation #2: Risk Analysis Did Not Consider the Likelihood of Risk Events

The OIG indicated that the Departmental Management Control Handbook states the risk analysis should assess risk severity (high, medium, and low) as well as the likelihood of the risk occurring. The OIG concluded that the CPD Notice and risk analysis worksheets did not consider the likelihood of future risk occurrence. The OIG recommends that the Director of CPD's Office of Field Management update the risk analysis guidance for CDBG-DR grants to include the assessment of the likelihood of risk occurrence to help inform management which critical risks to address during monitoring.

HUD Comment: The OIG's conclusion does not consider that the risk factors identified for the CDBG-DR grants were established to identify risk actions associated with the expenditure and administration of a non-recurring grant for long-term disaster recovery. CDBG-DR activities and programs are non-recurring. Thus, the risk analysis focuses on the activities across the recovery life cycle – set-up, implementation, completion, grant closeout - with an emphasis on overall grant administration and capacity versus discreet actions that are repeated. While the risk analysis identifies categories of risk, the QPRs and on-site monitoring are the tools used to identify the specific activities or functions to address during monitoring reviews. Thus, the likelihood of "future risk occurrence" cannot be meaningfully or reasonably applied to these grants. CPD does not agree that its risk analysis guidance for CDBG-DR grants should be updated to include this.

OIG Observation #3: No Clear Correlation Between Risk Analysis and Monitoring Existed

The OIG concluded that the monitoring effort was not a direct result of items identified in the risk analysis. The OIG also expressed concern that the monitoring strategies are not updated with new information throughout the year. The OIG recommends that the Director for the DRSI Division ensure that monitoring strategies correlate to the high risk areas identified during the risk analysis and are in compliance with the central risk factor categories identified in HUD's Monitoring Desk Guide.

HUD Comment: DRSI agrees that there is an opportunity to improve the correlation between the risk analysis and the monitoring. The general monitoring strategy for DRSI can be modified to incorporate the risk categories from the FY17 risk analysis and use Appendix E-1 in the current risk analysis notice to ensure there is a nexus between the risk categories and the monitoring Exhibits that are selected for use. As a point of clarification, monitoring strategies within DRSI are finalized no more than 60 days before the date of the monitoring. The strategies reflect the events, actions, performance reports that have occurred prior to the development of the monitoring to ensure monitoring topics are timely and accurate.

Appendix B – Agency Comments and OIG Response (continued)

Reference to OIG Response

Office of Community Planning and Development Comments

Comments 4 and 5

4

OIG Observations #4 and 5: CPD Made Limited Use of Data Analytics in its Risk Management Process and CPD Staff Were Not Trained to Conduct Risk Analysis

The OIG concluded that CPD could benefit from an expanded use of data analytics to capture the streams of data in multiple HUD and CPD information systems in one central location. The OIG also indicated that CPD has not established training that OMB Circular A-123 requires for staff involved in planning for, awarding and managing grants and other forms of financial assistance. The OIG recommends that the General Deputy Assistant Secretary ensure that CPD personnel that plan for, award, and manage grants and other forms of financial assistance receive formal risk analysis training.

HUD Comment: CPD agrees that there are more opportunities to use data analytics and has initiated a major DRGR data system enhancement that could inform changes to the risk analysis. While CPD also agrees that it would be beneficial for staff to participate in additional training on the Department's Risk Management Process, such training has been conducted in the past as part of the Department's Compliance and Monitoring Initiative (CMI) which was first held in 1999 and periodically repeated. These training responsibilities were shifted to the CFO's risk management office when the Office of Departmental Operations and Coordination was moved to the Office of Field Policy and Management. CPD is not aware of any plans for this type of training at the moment by either the CFO's risk management staff or the agency's Chief Risk Officer. CPD would willingly participate in such training, if it were offered.

If you would like to discuss these matters, please do not hesitate to contact Stanley Gimont, Deputy Assistant Secretary for Grant Programs (Acting), at (202) 402-4559.

OIG's Response to Management's Comments

- Comment 1 CPD disagreed with OIG's recommendation that the risk analysis worksheet include risk factors that focus on performance outputs. CPD's response focused on the methods CPD uses to measure the grantees progress, such as the review of Quarterly Performance Reports (QPR) and monitoring grantees. However, CPD did not address the risk factors used to assess risk during their risk analysis process, which was the focus of OIG's finding. OIG's intent was not to infer that CPD does not use QPRs, monitoring, and other relevant information to determine the grantee's progress in completing activities and projects. But rather, it is OIG's position that the "services" risk factor, the extent to which the grantee effectively and efficiently deliver services to intended beneficiaries, is a key factor in determining those grantees that pose the greatest risk to the financial integrity of CPD's program and should be considered when deciding which grantees to monitor. Furthermore, the measurement of the "services" risk factor during a risk analysis is a Department requirement, outlined in the HUD Monitoring Desk Guide. Unresolved- Open
- Comment 2 CPD disagreed with OIG's recommendation that CPD update the risk analysis guidance to include the assessment of the likelihood of risk occurrence. CPD indicated that OIG's conclusion did not consider that the risk factors identified for the CDBG-DR grants were established to identify risk actions associated with the expenditure and administration of a non-recurring grant for long-term recovery. OIG understands that disaster grants are non-recurring. However, the allocation, administration, and management for these non-recurring grants, some as large as \$4 billion, could ensue for several years before the municipality expends all of the grant funds and the recovery activities are completed. Throughout this long-term process, CPD is responsible for monitoring this process to ensure funds are spent in accordance with HUD and Federal guidelines. Annually, when CPD performs a risk analysis for these grants, assessing both the risk severity and likelihood of risk occurring, would help CPD to appropriately target its monitoring resources on high-risk areas. Furthermore, assessing both risk severity and likelihood of risk occurring is a Department requirement, outlined in HUD's Departmental Management Control Handbook and OMB Circular A-123 requires that staff involved in planning for, awarding and managing grants and other forms of financial assistance, receive training on fraud indicators and risk. Unresolved- Open
- Comment 3 CPD agreed with OIG's recommendation and recognized the opportunity to improve the correlation between the risk analysis and monitoring. Additionally, CPD clarified that monitoring strategies within DRSI are finalized 60 days prior to the monitoring visit. We are satisfied with management's response, and these actions, once implemented, should comply with our recommendation. We look forward to reading CPD's improved correlation between the risk analysis and monitoring, which should include specific dates for completing these actions.

Please provide the plan to us 90 days from the issuance of this report to your office. Resolved-Open

Comment 4 CPD agreed with the finding and acknowledged there are more opportunities for CPD to use data analytics. Additionally, CPD pointed out that they initiated a major data system enhancement for the Disaster Recovery Grant Reporting System that could inform changes to the risk analysis. We are satisfied with management's response, and no further action is required. Resolved-Closed

Comment 5 CPD agreed with OIG's recommendation and stated that it would be beneficial for CPD staff to participate in additional training on the Department's risk management process. However, CPD stated the responsibility for risk training has moved to the Chief Financial Officer's risk management office and CPD is not aware of any plans to offer this type training. Because risk analysis training is offered by a variety of outside vendors, OIG suggests CPD considers seeking risk training offered outside the Department rather than waiting for the CFO's office to offer this training. Considering the large number of temporary evaluators within DRSI and the multi-billion dollar disaster grant portfolio they are charged with managing, we believe that CPD evaluators could better identify and assess potential risk variables if they received timely formal training in this area. OIG will monitor this recommendation until CPD evaluators receive risk analysis training. Within 90 days, please provide us with details on your proposed management decision as well as target dates for implementing corrective action. Unresolved-Open



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