



Office of Community Planning and Development, Washington, DC

Economic Development Initiative – Special Project and
Neighborhood Initiative Congressional Grants Program

**Office of Audit, Region 9
Los Angeles, CA**

**Audit Report Number: 2017-LA-0006
September 21, 2017**





To: Lori Michalski, Deputy Assistant Secretary for Operations, Office of Community Planning and Development, DO

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: HUD Did Not Administer Economic Development Initiative – Special Project and Neighborhood Initiative Congressional Grants in Accordance With Program Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's Office of Community Planning and Development, Office of Policy Development and Coordination's administration of Economic Development Initiative – Special Project and Neighborhood Initiative congressional 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 8M, requires that OIG post its publicly available reports on the OIG website. 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 213-534-2471.



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HUD Did Not Administer Economic Development Initiative – Special Project and Neighborhood Initiative Congressional Grants in Accordance With Program Requirements

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development's administration of Economic Development Initiative – Special Project and Neighborhood Initiative congressional grants. This review was prompted by our Financial Audit Division's 2012 review, which reported that HUD did not have effective controls to monitor its obligated congressional grant funds.¹ Our audit objective was to determine whether HUD administered these congressional grants in accordance with its requirements; specifically, whether HUD ensured that grantees executed funded projects in accordance with applicable agreements and requirements.

What We Found

HUD did not ensure that congressional grant funds were administered in accordance with HUD requirements. Specifically, it did not always ensure that the accuracy of obligated grants and spent grant funds was supported in keeping with HUD requirements and internal policies and procedures. In addition, HUD approved a project that was not eligible for program funding. This condition occurred because HUD did not always monitor its congressional grants to ensure accurate reporting for compliance with grant agreements, objectives, and its own policies and procedures. As a result, more than \$4.1 million in grant funds was unsupported, and \$343,000 in grant funds was spent on an ineligible project.

What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Operations (1) support the eligibility of the more than \$4.1 million in unsupported costs; (2) require one grantee to repay \$343,000 from non-Federal funds for incurred ineligible program costs; and (3) improve its monitoring of congressional grants through closeout to ensure compliance with grant agreements, objectives, and policies and procedures.

¹ This finding was not included in our Financial Audit Division's 2012 or 2013 financial audit reports.

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Background and Objective

Congressional grants were authorized each year in the annual U.S. Department of Housing and Urban Development (HUD) appropriation and accompanying conference report. Congress authorized a specific level of funding to designated grantees to undertake a particular activity cited in the appropriation or conference report. Congress has not approved funding for these congressional noncompetitive grants since 2010. However, there are grants that are still active and in the process of closing out. Grantees used the funds to finance a variety of targeted economic investments in accordance with the terms and conditions specified in the accompanying conference report. Congress established two categories of congressional grants:

- Economic Development Initiative – Special Project grants
- Neighborhood Initiative grants

Only entities named by Congress in each HUD conference report or congressional record for the respective fiscal year could receive these congressional grant funds. The entity named in that conference report or congressional record received an invitation and application from HUD for the grant. Upon receipt of the application, HUD reviewed the application to ensure that (1) the entity named by Congress would act as the grantee and (2) the proposed activities were consistent with the terms of the Appropriations Act and accompanying conference report or congressional record for the relevant fiscal year. Following that review, HUD awarded the grant to the entity named in the conference report or congressional record.

Through congressional action, HUD provided more than \$585.5 million in Economic Development Initiative – Special Project and Neighborhood Initiative congressional grants to designated grantees for fiscal years 2008, 2009, and 2010. Individual grant amounts and recipients were reported in each year’s respective appropriation bill and conference report.

Consolidated Appropriations Act funding congressional grants			
Year	Economic Development Initiative	Neighborhood Initiative	Totals
2008	\$179,830,000	\$25,970,000	\$205,800,000
2009	165,311,875	19,546,250	184,858,125
2010	172,843,570	22,087,950	194,931,520
Totals	517,985,445	67,604,200	585,589,645

HUD’s Office of Community Planning Development (CPD), Office of Policy Development and Coordination, is responsible for administrating and monitoring the grants.

Our objective was to determine whether HUD administered its Economic Development Initiative – Special Project and Neighborhood Initiative congressional grants in accordance with HUD requirements; specifically, whether HUD ensured that grantees executed funded projects in accordance with applicable agreements and requirements.

Results of Audit

Finding: HUD Did Not Always Ensure That Congressionally Approved Grants Were Supported and Eligible

HUD did not always ensure that 19 projects totaling more than \$4.1 million in spent congressionally approved grant funds were supported with source documentation in accordance with HUD's requirements and its internal policies and procedures. Further, it approved a project that was not eligible to receive \$343,000 in program funding. This condition occurred because HUD did not always follow Federal requirements and HUD's internal policies and procedures to ensure that all congressionally funded projects complied with program requirements, grant agreements, objectives, and Federal requirements. As a result, HUD did not ensure that more than \$4.4 million in congressionally approved grants was supported and eligible.

HUD Did Not Always Ensure That Project Costs Were Supported

HUD did not always ensure that grant disbursements were supported with expenditure source documents, environmental reviews, and procurement records. Specifically, HUD did not always follow Federal requirements and internal policies and procedures when approving grant disbursements. As result, it did not ensure that more than \$4.1 million in spent grant funds was supported. Without the required documentation for the 19 projects, HUD could not ensure that the grantees received and used congressional grants for eligible projects that met program objectives, which included enhancing targeted economic investments, improving distressed and blighted areas, or revitalizing targeted communities.

HUD Approved Project Costs Without Expenditure Source Documents

HUD approved disbursements of grant funds for 19 projects, which lacked supporting documentation (appendix D). The grant files did not contain the required source documentation to show that incurred program expenses were supported and eligible. HUD regulations at 24 CFR (Code of Federal Regulation) 85.20 require source documentation, including contract award documents for expenditures (appendix C). In addition, HUD's Pre and Post Award Policies and Procedures requires source documentation for all initial and final drawdown requests as well as drawdown requests that exceed 70 percent of the grant amount (appendix C). For example, Housing Initiative Partnership, Incorporated, spent \$499,998 in grant funding to support administrative and operating costs for a foreclosure prevention program in the designated area. However, the project files did not contain source documentation to support drawdown requests for incurred project costs. Without the required source documentation, HUD could not determine the eligibility of incurred costs at the projects.

HUD Approved Funding Requests Without Required Environmental Reviews

HUD approved funding requests for five congressionally funded projects, which were missing required environmental reviews (appendix D). HUD regulations at 24 CFR 58.38 state that a written record of the environmental review must be maintained in the project files (appendix C).

HUD's Pre and Post Award Policies and Procedures states that grant officers will not approve any initial request for payment unless there is evidence in the grant file that the proper environmental review has been completed (appendix C). However, five project files did not contain the required environmental review documentation to support the project. For example, the City of Fayetteville was obligated \$147,000 in grant funding for the development of infrastructure of a business park. However, the project files did not contain required environmental review documentation. Without the required environmental review documentation, HUD could not determine whether the project met the environmental requirements to support the disbursement of funds.

HUD Approved a Project That Was Not Eligible for Funding

HUD approved a project that was not eligible to receive congressional grant funding. Office of Management and Budget (OMB) Circular A-122 allows preaward costs for expenses incurred before the effective date of an award if expenses are directly related to the negotiation and in anticipation of the award in which such costs are necessary to comply with the proposed delivery (appendix C). In fiscal year 2008, Congress appropriated a \$343,000 Economic Development Initiative – Special Project congressional grant to assist in the renovation of a social services facility in the State of Georgia. In December 23, 2008, HUD and the grantee entered into a grant agreement to renovate the facility. The grantee submitted a categorical exemption of environmental review report, which stated that the congressional grant would be used for renovations to an existing facility, including general masonry work, thermal and moisture protection countermeasures, and general electrical work. On December 8, 2008, the grantee forwarded its report to a field environmental officer at HUD's Atlanta regional office, who approved the documents. The categorical exemption of environmental review report stated that the funds would be used for work that had not been performed and instead would be completed at a future date. In February 2009, the grantee submitted a construction notice to HUD for payment of \$343,000. However, HUD approved the disbursement of congressional grant funds for project expenses that had been incurred 3 years before the grant was awarded and not for the negotiation and in anticipation of the grant. Specifically, the grantee incurred these construction costs in May 2005, 3 years before HUD awarded the grant. HUD's lack of monitoring the review process for this project resulted in a congressional grant's being used for \$343,000 in ineligible costs that did not meet program objectives, including enhancing targeted economic investments, improving distressed and blighted areas, or revitalizing targeted communities.

Conclusion

HUD did not always ensure that 20 congressionally funded projects totaling more than \$4.4 million were supported and eligible for the program. This condition occurred because HUD did not follow Federal requirements and HUD's internal policies and procedures in ensuring that all congressional grants complied with program requirements, grant agreements, objectives, and Federal requirements. Without the required documentation, HUD could not ensure that the congressional funds were supported and used for eligible purposes and that the grantees met program objectives, such as enhancing targeted economic investments, improving distressed and blighted areas, or revitalizing targeted communities.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Operations

- 1A. Support the eligibility of more than \$4,187,560 in unsupported costs or require the grantees to repay the U.S. Treasury from non-Federal funds.
- 1B. Require one grantee to repay the U.S. Treasury \$343,000 from non-Federal funds for ineligible program costs incurred for the project identified in this report.

Scope and Methodology

We performed our audit work at our office in Los Angeles, CA, and HUD headquarters in Washington, DC, between November 2016 and June 2017. Our audit covered the period October 1, 2007, through September 30, 2010, and was expanded as necessary.

To accomplish our objective, we

- Reviewed relevant background information, including Office of Inspector General (OIG), Financial Audit Division, audit reports.
- Reviewed Consolidated Appropriations Acts and accompanying consolidated reports.
- Reviewed applicable HUD, U.S. Government Accountability Office, and OMB requirements.
- Reviewed and analyzed HUD policies and procedures related to the administration and monitoring of congressional grants.
- Reviewed HUD system data and project files.
- Reviewed sites through personal visits and the use of online tools, such as Google Maps.
- Interviewed HUD and project staff.

The audit universe consisted of 1,518 Economic Development Initiative – Special Project congressional grants and 97 Neighborhood Initiative congressional grants that were obligated with disbursements totaling more than \$533 million for the period October 1, 2007, through November 8, 2016. The universe did not include grants that were not obligated. We did not sample those grants and instead asked HUD to provide a listing and details for each grant it did not obligate. We randomly selected for review 30 projects totaling more than \$15.7 million in congressionally approved grants. Of the 30 projects, 25 were Economic Development Initiative – Special Project and 5 were Neighborhood Initiative projects. Although this approach did not allow us to make a projection to the universe, it was sufficient to meet the audit objective.

We relied on data maintained by three HUD systems. These systems are the HUD Central Accounting and Program, Financial Data Mart, and Line of Credit Control System,² which are used to track the congressional grants. We relied on the accuracy of data from these systems to

² The Line of Credit Control System is HUD's primary grant disbursement system, used for handling disbursements for the majority of HUD programs.

provide information, such as project names, project numbers, amounts obligated, and amounts spent. The HUD Central Accounting and Program and Line of Credit Control System share grant data with the Financial Data Mart. As a result, we used source documents from sample project files and the Line of Credit Control System to determine the reliability of data in the Financial Data Mart and HUD Central Accounting and Program for the period October 1, 2007, through November 8, 2016. Specifically, we compared data from source documents of sample projects and the Line of Credit Control System to data from the Financial Data Mart system and HUD Central Accounting and Program. Based on our testing, we determined that the data maintained in the Financial Data Mart and HUD Central Accounting and Program were reliable for meeting our audit objective.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Controls to ensure the accuracy of Economic Development – Special Project and Neighborhood Initiative congressional grant funds.
- Controls to ensure the implementation of CPD's Office of Policy Development and Coordination's policies and procedures.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

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

- HUD did not always follow Federal requirements to ensure that projects funded with congressional grants were supported and eligible (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$4,187,560
1B	\$343,000	
Totals	343,000	4,187,560

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

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

OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT

TO: Tanya Schulze
Regional Inspector General for Audit, Los Angeles Region, 9DGA

FROM: *Lori Michalski*
Lori Michalski
Deputy Assistant Secretary for Operations, Office of Community Planning and Development, DO

SUBJECT: HUD Comments for Discussion Draft Report - HUD Did Not Administer Economic Development Initiative - Special Projects and Neighborhood Initiative Congressional grants in Accordance with Program Requirements

The Office of Community Planning and Development (CPD) has reviewed the draft report and recommendations and participated in the August 23, 2017 exit conference. In follow-up to its review, CPD has provided below, responses to each of the recommendations produced.

Recommendation 1A. Reconcile identified discrepancies of \$8,157,500 in appropriated congressional grants. This measure would ensure that the congressional grants is put to better use in tracking funds designated for use as stated in the grant agreements and meeting related rules and requirements. HUD should return any unobligated funds to the US Treasury.

CPD has provided clarification on this audit review component multiple times. Through the exit conference, CPD communicated that the 40 grants identified on pages 19-21 of the draft report pertain to grants in which the grantee had an approved application and did not expend any of the obligated funding or did not have approved application and the funds remained allocated as outlined in the original program appropriation, but were never expended. For these 40 grants, any funds remaining as of September 30, 2016 for 2009 grants were recaptured by the HUD Office of Chief Financial Officer (OCFO) and shortly after September 30, 2017, any funds remaining for 2010 grants will be automatically recaptured by the OCFO and sent back to the US Department of Treasury.

For the 2009 grants listed below, CPD has attached reports from the Line of Credit Control System (LOCCS) showing that the obligated funding was deobligated as of September 30, 2016. For all of these grants, CPD received and approved applications, but the project was not implemented and therefore no funding was expended or reimbursed.

	Project Name	Grant Number	Obligated Amount	Amount Deobligated on September 30, 2016
1	City of Northport	B-09-SP-AL-0158	\$95,000	\$95,000

1

2	Town of Pike Road	B-09-SP-AL-0165	\$95,000	\$95,000
3	City of Valley	B-09-SP-AL-0190	\$71,250	\$71,250
4	West Valley Community Services, Inc	B-09-SP-CA-0485	\$261,250	\$261,250
5	Town of Tolland	B-09-SP-CT-0187	\$190,000	\$190,000
6	City of Marshalltown	B-09-SP-IA-0146	\$570,000	\$570,000
7	City of Salina	B-09-SP-KS-0174	\$118,750	\$118,750
8	Bergen County Improvement Authority	B-09-SP-NJ-0029	\$190,000	\$190,000
9	Borough of Bound Brook	B-09-SP-NJ-0038	\$142,500	\$142,500
10	County of Bernalillo	B-09-SP-NM-0032	\$570,000	\$570,000
11	County of Luna	B-09-SP-NM-0304	\$118,750	\$118,750
12	Pueblo of Acoma	B-09-SP-NM-0381	\$142,500	\$142,500
13	Town of Bernalillo	B-09-SP-NM-0447	\$142,500	\$142,500
14	Ardmore Development Authority	B-09-SP-OK-0016	\$190,000	\$190,000
15	Jewish Federation of Greater Philadelphia	B-09-SP-PA-0280	\$166,250	\$166,250
16	Boys and Girls Club of the Grand River Area	B-09-SP-SD-0044	\$190,000	\$190,000
17	City of Franklin	B-09-SP-TX-0119	\$332,500	\$332,500
18	City of Houston	B-09-SP-TX-0129	\$237,500	\$237,500
19	City of New Braunfels	B-09-SP-TX-0156	\$142,500	\$142,500
20	Housing and Community Services	B-09-SP-TX-0263	\$23,750	\$23,750
21	City of Follansbee	B-09-SP-WV-0116	\$190,000	\$190,000
22	Carbon County Museum Foundation	B-09-SP-WY-0052	\$95,000	\$95,000
TOTALS			\$4,275,000	\$4,275,000

For the 2009 grants listed below, CPD has attached reports from the Line of Credit Control System (LOCCS) showing that the funding balance for each grant is \$0.00. These grants expired on September 30, 2016 and like the 22 other 2009 grants listed above, the funds were recaptured and sent back to the US Department of Treasury. For these grants, CPD never approved an application (project) during the application period, so the funding remained available as originally allocated, but was never expended or disbursed because there was no HUD approved project.

	Project Name	Grant Number	Allocated Amount	Amount Deobligated on September 30, 2016
23	The Salvation Army	B-09-SP-AZ-0441	\$380,000	\$380,000
24	County of Jefferson	B-09-SP-CO-0278	\$190,000	\$190,000
25	Lake Area Community	B-09-SP-LA-0290	\$190,000	\$190,000

	Center			
26	Cultural Coast	B-09-SP-MA-0213	\$95,000	\$95,000
27	Charles County	B-09-SP-MD-0069	\$380,000	\$380,000
28	City of Charlotte	B-09-SP-NC-0098	\$95,000	\$95,000
29	City of Fairborn	B-09-SP-OH-0113	\$190,000	\$190,000
30	Metro Parks Serving Summit County	B-09-SP-OH-0321	\$142,500	\$142,500
31	Butler County Planning Commission	B-09-SP-PA-0048	\$142,500	\$142,500
32	Shenango Valley Industrial Development Corporation	B-09-SP-PA-0409	\$95,000	\$95,000
33	Municipality of Yabucoa	B-09-SP-PR-0334	\$95,000	\$95,000
34	Yardley Borough*	B-09-NI-PA-0027	\$237,500	\$237,500
TOTALS			\$2,232,500	\$2,232,500

* Yardley Borough was separately documented in the summary table on page 19 of the draft Report because it is a Neighborhood Initiative grant. It has been included in this list because the LOCCS documentation is the same as the other grants on the list.

The 2010 grants listed below represent projects that CPD never approved an application (project) for during the application period, so the funding remained available as originally allocated, but was never expended or disbursed because there was no HUD approved project. These grants will expire on September 30, 2017 and like the 2009 grants summarized above, the funds will be automatically recaptured by the OCFO and sent back to the US Department of Treasury.

	Project Name	Grant Number	Allocated Amount	Amount Scheduled for Deobligation on September 30, 2017
35	Chabad of the Valley, Tarzana, CA	B-10-SP-CA-0060	\$250,000	\$250,000
36	Hillview Acres Children, CA	B-10-SP-CA-0216	\$250,000	\$250,000
37	Town of Darien	B-10-SP-CT-0355	\$250,000	\$250,000
38	The Manor, Jonesville, MI	B-10-SP-MI-0342	\$250,000	\$250,000
39	Friendly Fuld Neighborhood Centers, Inc., Newark, NJ	B-10-SP-NJ-0201	\$400,000	\$400,000
40	Bedford County Development Association, PA	B-10-SP-PA-0025	\$250,000	\$250,000
TOTALS			\$1,650,000	\$1,650,000

Based on the documentation and explanation provided above, CPD is requesting the OIG remove this finding and recommendation from the audit.

Comment 2

Recommendation 2A. Support the eligibility of more than \$4,187,560 in unsupported costs or require the grantees to repay the U.S. Treasury from non-Federal funds.

The Office of Inspector General (OIG) reviewed a sample of grants during the audit and identified 19 grants that were missing supporting documentation to substantiate reimbursements. Specifically, the OIG determined that the grant files for the identified grants were missing at least one of the following: expenditure support, environmental review, or procurement documents. During the exit conference, CPD contested the inclusion of procurement documents in the OIG's summary review chart (see page 22 of the draft report). According to CPD's program policies and procedures, the grant files maintained by HUD were not required to include the procurement documents, these files were instead to be maintained by the grantee and made available at CPD's request. Therefore, a lack of procurement documents in CPD's grant files could not be the basis for an audit finding. The Regional Inspector General for Audit (RIGA) overseeing this audit provided acknowledgement of CPD's position via a follow-up email and indicated that the recommendation and resulting summary review chart would be modified in the final audit report.

As for the expenditure support and environmental review documents, HUD will proceed with collecting and/or requesting supporting documentation for each of the 19 grants identified. This work will be conducted as part of the audit resolution phase once the final audit report is issued.

Comment 3

Recommendation 2B. Require one grantee to repay the U.S. Treasury \$343,000 from non-Federal funds for ineligible program costs incurred for the project identified in this report.

CPD concurs with the OIG's finding and will proceed with pursuing repayment.

Comment 4

Recommendation 2C. Ensure that staff overseeing the projects follow Federal rules and requirements and established policies and procedures to ensure that remaining congressional grants comply with program requirements, grant agreements, objectives, and Federal rules and requirements.

CPD contested the reasonableness of this recommendation during the exit conference because as of September 30, 2017, all grants and grant programs reviewed under this audit will expire with no future funding allocations anticipated at this time. Therefore, CPD indicated that updated policies and procedures were not feasible or a relevant task since the Congressional Earmark grant program would be ending as of September 30, 2017 and there would be no more programs or funding to manage. The Regional Inspector General for Audit (RIGA) overseeing this audit provided acknowledgment of CPD's position via a follow-up email and indicated that the recommendation would be removed from the final audit report.

CPD would like to thank the OIG staff for their professionalism and open communication during the audit process and if there are any additional questions about the programs or draft audit recommendations, please contact Steven K. Washington at 202-402-4142 or Steven.K.Washington@hud.gov.

OIG Evaluation of Auditee Comments

- Comment 1 We acknowledge that HUD has provided clarification between the appropriated and obligated grants. We agree that there were grants that had approved applications but the grantees did not spend funds from them. We also agree that there were grants that did not have approved applications and the grantees did not spend funds from them. During our fieldwork, we did not receive documentation to show the \$8,157,500 in appropriated grants was deobligated and recaptured by HUD and sent back to the U.S. Department of the Treasury. However, we appreciate HUD for taking action to address the finding after our fieldwork was completed. Specifically, HUD provided us documentation to show that \$6,507,500 of the questioned grants was deobligated and recaptured in September 2016. In addition, HUD provided us documentation to show that the grantees did not use the remaining \$1,650,000 in grants and the funds would be recaptured in September 2017. Based on the documentation, we have removed the finding and recommendation from this report.
- Comment 2 We agree that HUD's program policies and procedures do not require it maintain procurement documents in grant files. As a result, we removed references about missing procurement documents from this report. We appreciate HUD for taking action in collecting the missing documentation for the 19 grantees identified in this report.
- Comment 3 We appreciate HUD for acknowledging the ineligible costs and taking corrective action in resolving recommendation 2B.
- Comment 4 We acknowledge that the congressional grant program will end on September 30, 2017, and no future funds will be appropriated for it. As a result, we have removed recommendation 2C from this report.

Appendix C

Criteria

The following sections of 24 CFR Parts 58 and 85; OMB Circular A-122; and HUD CPD, Congressional Grants Division, Pre and Post Award Policies and Procedures, December 2013, were relevant to our audit of HUD's congressional grants program.

24 CFR Part 58, Environmental Review Procedures for Entities Assuming HUD Environmental Responsibilities

58.38 Environmental review record.

The responsible entity must maintain a written record of the environmental review undertaken under this part for each project. This document will be designated the "Environmental Review Record" (ERR), and shall be available for public review. The responsible entity must use the current HUD-recommended formats or develop equivalent formats.

24 CFR Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments

85.20 Standards for financial management systems.

(b)(6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

OMB Circular A-122, Cost Principles for Non-Profit Organizations

36. *Pre-agreement costs.* Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

HUD CPD, Congressional Grants Division, Pre and Post Award Policies and Procedures, December 2013

II. Post-Award Policies

A. LOCCS [Line of Credit Control System] Approval

- Grant Officers will not approve any initial request for payment unless there is evidence in the grant file that the proper environmental review has been completed.

- Grantees requesting payment shall be required to submit source documentation for payment and a narrative indicating how the payment is consistent with the approved budget for the grant when:
 1. Requesting the initial payment for the grant;
 2. Requesting 70% or more of the total grant amount; or
 3. Requesting to draw all remaining funds for the grant.

Appendix D

Summary Review of Projects Funded With Congressional Grants

	Project name	Unsupported amount	Ineligible amount	Missing documents	
				Expenditure support	Environmental review
1	City of Quincy	\$59,755	\$0	X	X
2	County of San Mateo	143,917	0	X	
3	City of Fayetteville	147,000	0	X	X
4	YWCA Columbus	196,000	0	X	
5	Lynchburg Academy of Fine Arts	245,000	0	X	X
6	The Center for Family Resource	0	343,000		
7	City of Wilson	252,372	0	X	X
8	The Ministry of Caring	600	0	X	X
9	City of Citrus Heights	38,022	0	X	
10	Japanese Community Youth Council	142,500	0	X	
11	Ogontz Avenue Revitalization	190,000	0	X	
12	Josephine Solomon Ellis Foundation	97,000	0	X	
13	County of Oakland	190,000	0	X	
14	Casper College	178,279	0	X	
15	Spirit Lake Tribe	15,862	0	X	
16	City of Richland	\$145,915	\$0	X	
17	City of Sioux City	686,000	0	X	
18	City of Bridgeport	472,340	0	X	
19	NeighborWorks Lincoln	487,000	0	X	
20	Housing Initiative Partnership	499,998	0	X	
Totals		4,187,560	343,000	19	5