



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

September 27, 2018

MEMORANDUM NO:
2018-NY-0801

Memorandum

TO: Irving L. Dennis, Chief Financial Officer, F
Henry Hensley, Director, Office of Strategic Planning and Management, X

FROM: //SIGNED//
Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA

SUBJECT: Risk Assessment of HUD's Grant Closeout Process

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), has completed a risk assessment of HUD's grant closeout process as required by the Grants Oversight and New Efficiency (GONE) Act of 2016, Public Law 114-117.

Our objective was to determine whether an audit or review of HUD's grant closeout process was warranted. We found that a moderate risk was associated with HUD's grant closeout process and recommend that a full audit be performed in fiscal year 2019.

This memorandum does not contain recommendations. We will use the risk assessment to determine the scope of the audit of HUD's grant closeout process.

SCOPE AND METHODOLOGY

Our assessment period generally covered January 2016 through June 2018. We performed our assessment work from July through August 2018 at our office located in Newark, NJ.

To accomplish our objective, we

- reviewed applicable laws and regulations;
- reviewed HUD's policies, procedures, and memorandums;
- interviewed HUD officials;
- reviewed HUD's November 2017 GONE Act report; and
- analyzed the grant data used for HUD's November 2017 report and June 2018 update.

To achieve our objective, we relied in part on grant data provided by HUD from its Financial Data Mart.¹ As shown in the table below, the data included 186,306 grant records as of November 2017 and 5,571 grant records as of June 2018.

HUD office	Records in GONE Act data as of November 2017		Records in GONE Act data as of June 2018	
	# of grants	Balance	# of grants	Balance
Office of Community Planning and Development	31,934	\$49,082,088	5,289	\$28,936,286
Office of Fair Housing and Equal Opportunity	4,287	570,488	9	607,125
Office of Housing	909	44,240	125	44,240
Office of Lead Hazard Control and Healthy Homes	1,024	5,650	0	0
Office of Policy Development and Research	1,539	0	135	0
Office of Public and Indian Housing	146,613	20,885,083	13	17,696
Totals	186,306	70,587,549	5,571	29,605,347

We used the data for background information and to determine whether HUD’s November 2017 report was supported. To test the reliability of the data, we used a data analysis tool to identify potential discrepancies in each file and between the files. We identified several concerns with the data, as noted in the Results of Review section below. However, we found that the data were sufficient to achieve our objective of determining whether an audit or review of HUD’s grant closeout process was warranted.

We used U.S. Government Accountability Office government auditing standards, issued January 2012, section 6.15a-g as guidance to help us determine the risk levels used in this memorandum.

BACKGROUND

On January 28, 2016, President Obama signed the GONE Act, Public Law 114-117. The Act required Federal agencies to report open Federal grant and cooperative agreement awards with periods of performance that had been expired for at least 2 years and take appropriate action to close them out in accordance with regulations at 2 CFR (Code of Federal Regulations) 200.16 and 200.343. Section 2(a)(1) of the Act required agencies to submit an initial report to Congress and the Secretary of Health and Human Services not later than December 31, 2017. Further, section 2(c) required that the Inspector General of an agency with more than \$500 million in annual grant funding, such as HUD, conduct a risk assessment to determine whether an audit or review of the agency’s grant closeout process was warranted.

In November 2017, HUD submitted its initial GONE Act report, which showed that it had the largest number of open grants of all Federal agencies and the 30 oldest open awards. HUD is required to submit an update of its progress in closing these grants in November 2018.

¹ Financial Data Mart is a warehouse of data extracted from a variety of HUD’s financial systems and supported by a number of query tools for the purpose of improved financial and program data reporting. It is the primary reporting tool used to generate internal ad-hoc reports, scheduled event-driven reports, and queries.

According to regulations at 2 CFR 200.343, agencies are required to close out the Federal awards once they have determined that all applicable administrative actions and all required work under the award have been completed by the non-Federal entity. To implement the GONE Act requirements and close out grants with expired periods of performance, HUD's Office of the Chief Financial Officer (OCFO), Office of Strategic Planning and Management, and six other offices² collaborated. OCFO developed policies and procedures to address the open grants identified in the November 2017 report. Further, it issued memorandums to program offices in April, June, and July 2018, discussing its plans and progress toward meeting the GONE Act requirements.

This memorandum summarizes the results of our risk assessment of HUD's grant closeout process.

RESULTS OF REVIEW

We found moderate risks associated with HUD's grant closeout process. The following sections discuss these risks in detail.

Risk Related to Grant Data

As discussed below, we identified several concerns with the November 2017 and June 2018 data provided by HUD.

- Duplicate records - The data provided to support the 186,306 open grants disclosed in November 2017 contained 14,893 duplicate records. Further, the June 2018 grant data listed 5,571 open grants and contained 124 duplicate records.
- New records - While HUD stated that the June 2018 data showed which grants from the November 2017 data were still open, it contained 114 records not listed in the November 2017 data.
- Grant records that did not meet GONE Act criteria - HUD informed us that the November 2017 report incorrectly included grants that did not meet GONE Act reporting criteria. For example, more than 26,000 of the 31,934 Office of Community Planning and Development grants included in the report should not have been included for various reasons, including that some grants were still within their performance period.

As a result, HUD did not have assurance that its data were accurate and complete, and it could not ensure the accuracy of its reporting related to the GONE Act.

Risk Related to HUD's Policies and Guidance

We identified several concerns with HUD's policies and guidance related to the GONE Act. For example,

- The memorandum issued by OCFO in April 2018 stated that it planned to unilaterally close all zero-balance grants with a period of performance ending in fiscal year 2015 and earlier. While it provided program offices with opportunities to provide input to keep them open, the timeframes to provide input were short. Specifically, it provided program

² See the offices listed in the table on page 2.

offices 2 weeks to determine whether there were any grants with periods of performance ending in fiscal year 2010 and earlier that could not be closed and stated that OCFO would start closing these grants 3 days after the deadline. Closing grants unilaterally is a concern for several reasons, including that program offices may not have completed all administrative requirements as required by 2 CFR 200.343 and various HUD requirements. By requiring program offices to note only which grants should not be closed, HUD took away the need for program offices to confirm that each grant should be closed. It could also create differences in HUD's financial systems. In June 2018, OCFO issued an updated memorandum that removed the language about unilaterally closing grants and stated that it would execute financial closeout of the grants based on certifications from program offices stating that applicable program-specific grant closeout requirements had been completed. However, 179,703 of the 186,306 grants were closed out or removed before the June 2018 updated memorandum, which also did not indicate whether HUD would revisit those grants to ensure that program-specific grant closeout requirements were followed before OCFO closed the grants.

- Program offices did not have sufficient policies and procedures. The grant data used for the November 2017 report involved six program offices and dozens of programs. As of August 2018, it appeared that HUD did not have closeout policies and procedures for all of the programs and had not provided sufficient guidance to field offices. For example, the Office of Community Planning and Development issued policies for certain Community Development Block Grants for States and for Emergency Solutions Grants and Continuum of Care Program grants, and it provided training to field office staff. However, no guidance had been developed for other program grants, including those awarded under the non-State Community Development Block Grant, Housing Opportunities for Persons With Aids, and HOME Investment Partnerships programs. Further, some field offices contacted were unaware of the GONE Act and the current grant closeout procedures.

Risk Related to the Volume of Grants Involved and the Speed With Which They Were Closed

We identified concerns related to the volume of grants involved and the speed with which they were closed. According to HUD's November 2017 report, there were 186,306 open grants with more than \$70.5 million subject to the GONE Act based on their performance ending date, and HUD had the highest number of open grants when compared to other Federal agencies. Further, the June 2018 data contained more than 180,000 fewer records than the November 2017 data, or less than 3 percent of the original records, and its total balance was more than \$40 million lower. While some records may have been removed because they were not subject to the GONE Act or because they were duplicates, as discussed in the section above about the grant data, a significant number of these 180,000 represent grants that were closed over 7 months.

Closing a large number of grants in such a short period is concerning, given the issues noted with HUD's policies and procedures, especially for grants subject to lengthy closeout procedures. For example, the grant closeout procedures for the Public Housing Capital Fund³ program require a

³ The Capital Fund program is one major component of HUD's public housing programs. Capital funds provide annual formula grants to public housing agencies for development, financing, and modernization of public housing developments and management improvements.

preaudit review, a final performance and evaluation report, submission and approval of a cost certificate, and a postaudit review before the grants can be closed, and these steps can take several months or years. While we cannot say exactly how many Capital Fund program grants were closed out during the 7 months, the June 2018 data for the Office of Public and Indian Housing contained more than 146,000 fewer records than the November 2017 data, and its total balance was more than \$20 million lower.

HUD stated that it was able to close a large number of grants quickly because they had already been closed out administratively and noted that a significant number of the records were removed because they should not have been included in its November 2017 report. However, as of August 2018, it had not provided details or documentation showing how many grants were included in each of these categories.

Risk Related to Improper Deobligation of Grant Funds Identified

We identified concerns related to the deobligation of funds by HUD headquarters in preparation of grant closeout. At least one grant was improperly deobligated when HUD was trying to meet the GONE Act requirements, and we believe there is a risk that this error occurred with other grants as well. According to local field office staff, the grant's ending performance date was in September 2018, but HUD headquarters' data listed it as September 30, 2013. HUD headquarters believed the grant should have been closed out and deobligated the \$229,167 balance without informing the responsible field office, while the funded activities were ongoing. It took several months for HUD field office and headquarters staff to identify the issue and restore the funding. In reviewing the grant data provided by HUD headquarters, we noted that this grant was listed as having a zero balance in November 2017 and the balance was then increased in the June 2018 data, which corresponds to the information provided by the field office. Further, we noted that there were 15 additional grants with zero balances in the November 2017 data and positive balances in the June 2018 data. Therefore, it is possible that additional grants were improperly deobligated in 2017 and later restored. HUD acknowledged that some grants had incorrect performance ending dates in its data and stated that it had been updating the information in its financial systems and developing procedures to automate the process.

CONCLUSION

We identified several risks related to HUD's grant closeout process and compliance with the GONE Act. As a result, we plan to perform a full audit in fiscal year 2019. This memorandum does not contain recommendations.

Appendix A

Auditee Comments and OIG’s Evaluation

**Ref to OIG
Evaluation**

Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

CHIEF FINANCIAL OFFICER

TO: Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA
FROM: George Tomchick III, Deputy Chief Financial Officer, F
SUBJECT: OCFO Comments on OIG Discussion Draft Audit Report, Risk Assessment of HUD’s Grant Closeout Process
DATE: September 18, 2018

The Office of the Chief Financial Officer (OCFO) and the Office of Strategic Planning and Management (OSPM) have reviewed the OIG Memorandum regarding its review of HUD’s grant closures in response to GONE Act requirements. We appreciate the opportunity to respond to the OIG’s findings during this review.

Comment 1

First, we would like to make an important correction to a point in the OIG’s report. The OIG stated, “The two memorandums issued by OCFO in April and July 2018 stated that it planned to unilaterally close certain grants.” The April memo was a draft that went through Departmental Clearance, which the OIG reviewed. In fact, the OIG non-concurred on the proposal to unilaterally close these grants; before issuing the final draft, HUD met with OIG managers and addressed their concerns – removing that language and replacing it with an alternate plan – and ensured that the OIG lifted the non-concurrence. The final version, issued June 18, did not state that HUD would unilaterally close any grants. Nor did the memo issued on July 2 (a different memo regarding the closeout of grants with balances). Instead, OSPM and OCFO ensured that each program office verified that they had completed all programmatic requirements before sending it to OCFO for financial closeout. OCFO did not close any grants without this program office sign-off—before or after the memo was issued.

Comment 2

In that same paragraph, the OIG stated that it had a concern about the short time periods for program offices to provide comments to keep grants open; however, it used the April 2018 draft as an example. In the final first memo and in subsequent memos, and in practice, the CFO provided them with more time; further, because OCFO and OSPM were working closely with program offices on closeouts (and had been for some time), the memos were intended to provide structure and impetus for program offices to conduct closeouts. HUD understood that the purpose of the GONE Act was to push agencies to conduct needed closeouts, and that HUD had been lacking in this area in prior years. In response to this law, program offices and OCFO sprang into action and completed the final steps to close out these grants. For a large number of these grants, program offices had already completed the programmatic steps to close out the grants, and the final step was confirming that and sending it to OCFO to record it in the financial system.

Comment 3

Another correction relates to the “Risk Related to Improper Deobligation of Grant Funds Identified” portion of the report. The grant that was recaptured, NJ0376C2F201100, was recaptured

Comment 4

**Ref to OIG
Evaluation**

Auditee Comments



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CHIEF FINANCIAL OFFICER

Comment 4

as a result of the program office marking it to be recaptured in the annual Open Obligation Review process, which is designed to monitor HUD's obligations and de-obligate awards as needed. The program office subsequently realized it had marked the record incorrectly and worked with OCF to have the funds restored. It was not "improperly deobligated when HUD was trying to meet the GONE Act requirements," as stated in the OIG report.

Comment 5

The first bullet in the "Risk Related to Grant Data" section states, "The data provided to support the 186,306 open grants disclosed in November 2017 contains 14,893 duplicate records. Further, the June 2018 grant data listed 5,571 open grants and contained 124 duplicate records." These are not actually duplicate records; the information required by the OMB template is not adequate to identify unique financial transactions. HUD awards frequently include funds from differing years, and the funds are tracked discretely in HUD financial systems.

Comment 6

Finally, in the "Risk Related to HUD's Policies and Guidance" section, the last sentence states, "Further, some field offices contacted were unaware of the GONE Act and the current grant closeout procedures." As we noted on the call with the OIG last week, for some HUD programs, closeout is conducted at HUD Headquarters and field offices do not play a role. Therefore, it is not necessary for these field office representatives to be aware of grant closeout procedures or even the GONE Act. It would be helpful to know which field offices the OIG contacted, regarding which programs, to better understand whether this is a true concern.

Thank you for your consideration of these comments.

OIG Evaluation of Auditee Comments

- Comment 1 HUD stated that the April 2018 memorandum was a draft that went through the departmental clearance process and that the June 2018 memorandum was the final version it issued. It noted that OIG nonconcurred with its April 2018 memorandum's proposal to unilaterally close the grants and that it removed that language to ensure that OIG lifted the nonconcurrence. Last, HUD stated that OCFO did not close any grants without program office sign-off. We agree that HUD updated the April 2018 memorandum in June 2018 to remove the language related to unilateral closeout of the grants. As a result, our audit memorandum was adjusted to reflect this change. However, because the April 2018 memorandum was signed prior to it going through the departmental clearance process, did not contain any language indicating that it was a draft, and was again provided to OIG in July 2018 at the start of this review, we did not consider it to be a draft. Further, the June 2018 memorandum stated that 179,703 grants had been closed or removed before it was issued, and it did not indicate whether HUD would revisit those grants to ensure that program-specific grant closeout requirements were followed before OCFO closed the grants. As part of the full audit, we plan to perform a detailed review to determine whether grant closeouts were done properly.
- Comment 2 HUD stated that the final versions of the memorandums issued by OCFO provided program offices more time to provide comments to keep grants open. We acknowledge that the updated June 2018 memorandum provided additional time for program offices to respond on the open grants. However, because the majority of the open grants were already closed or removed before the June 2018 memorandum was issued, we do not have assurance that program offices were provided sufficient time to complete closeout procedures.
- Comment 3 HUD stated that program offices had already completed the programmatic steps to close out a large number of the grants, and that the final step was confirming this and sending it to OCFO to record in the financial system. As part of the full audit, we plan to perform a detailed review of a sample of grant closeouts to make a determination whether they were done properly.
- Comment 4 HUD acknowledged that the record for one grant was incorrect, which caused the recapture of funding while the activity was still ongoing. However, it stated that this occurred as a result of the program office marking it incorrectly as part of its annual open obligation review process. Therefore, HUD stated that the funds were not improperly deobligated in an effort to meet the GONE Act requirements. As part of the full audit, we plan to further research the circumstances related to this grant and the 15 other grants that had zero balances in the November 2017 data and positive balances in the June 2018 data.
- Comment 5 HUD stated that the duplicate records identified during our review were not actually duplicate records. HUD explained that its awards frequently include funds from different years and that the information required by the Office of Management and Budget template for the data was not adequate to identify

unique financial transactions. However, we maintain that there was a risk in this area based on inconsistencies within the data from November 2017 and June 2018. The data provided by HUD did not contain an identifier that clearly showed the duplicate records were unique records representing different program years. Further, if each entry did not represent a single grant, it raises a concern regarding the accuracy of HUD's GONE Act reporting because it reported each record as a grant. As part of the full audit, we plan to perform a detailed review of these records to determine whether the data were accurate and whether HUD's reporting methodology complied with the GONE Act requirements.

Comment 6 HUD stated that it was not necessary for all field office representatives to be aware of grant closeout procedures or the GONE Act because grant closeout is conducted at the headquarters level for some programs. However, many HUD programs require field offices to have substantial involvement and significant responsibilities in grant closeout processes because the field offices closely monitor the grant activities and administer drawdowns. We maintain that there is an increased risk that grants could be improperly closed when field offices are not informed of the GONE Act requirements and procedures. All field offices contacted had open grants in the closeout list. Further, the field office that was aware of the GONE Act requirements was not properly informed by HUD headquarters when a grant was incorrectly deobligated. Field office staff did not realize that the funds were deobligated until the grantee brought it to their attention when it was unable to make drawdowns. As part of the full audit, we plan to perform additional research related to the involvement of headquarters program offices and field offices in the grant closeout processes.