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Audit Report Number 2008-PH-0001
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TO: Nelson R. Bregon, General Deputy Assistant Secretary for Community Planning and Development, D

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FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: HUD's Process for Tracking the American Dream Downpayment Initiative Had Weaknesses

## **HIGHLIGHTS**

### **What We Audited and Why**

As part of the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General's (OIG) strategic plan, we audited HUD's American Dream Downpayment Initiative (Initiative). Our audit objective was to determine whether HUD had adequate controls to ensure that its grantees did not exceed allowable downpayment assistance limits and that funds were used as required.

### **What We Found**

HUD had controls in place to ensure that grantees did not exceed allowable downpayment assistance limits and that funds were used as required, but the controls had weaknesses. Specifically, HUD relied heavily on its Integrated Disbursement and Information System, which did not have adequate capability to specifically track the Initiative's activities. Further, regardless of the total amount of downpayment assistance provided to the homebuyers reported via the system,

the accomplishment reports prepared by HUD and used to report the total amount of the Initiative's funding disbursed always reflected the grantees' budgeted funding limits. If grantees exceeded downpayment assistance limits, HUD charged the excessive amount to the participating jurisdiction's HOME Investment Partnerships (HOME) Act formula allocation.

### **What We Recommend**

We recommend that HUD perform periodic analyses to ensure that information reflected on the Initiative's accomplishment reports is accurate and coincides with the grantees' HUD-approved consolidated plans. If any of the reported information is found to be inaccurate, HUD needs to correct the appropriate reports and monetary figures.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We provided the draft report to HUD on March 4, 2008. We discussed the report with HUD throughout the audit and at the exit conference on March 13, 2008. HUD provided written comments to our draft report on March 19, 2008. In its comments, HUD stated that it finds our recommendation acceptable.

The complete text of HUD's response, along with our evaluation of that response, can be found in appendix A of this report.

## TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding: HUD's Process for Tracking the Initiative Had Weaknesses	5
Scope and Methodology	9
Internal Controls	10
Appendix	
A. Auditee Comments and OIG's Evaluation	12

## BACKGROUND AND OBJECTIVES

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The American Dream Downpayment Initiative (Initiative) was signed into law by President Bush on December 16, 2003, under the American Dream Downpayment Act (Act) (Public Law 108-186). The Initiative was created to assist low-income, first-time homebuyers in purchasing single-family homes by providing funds for downpayments, closing costs, and rehabilitation carried out in conjunction with the assisted home purchase. The Initiative is administered as a set-aside of the HOME Investment Partnerships Program (HOME), a formula grant program. The Initiative provides funds to all 50 states and to local participating jurisdictions that have a population of at least 150,000 or will receive an allocation of at least \$50,000 under the Initiative's formula. Initiative funds have restrictions that do not apply to other HOME funds; such as, they should only be used for downpayment, closing cost, and rehabilitation assistance to low-income, first-time homebuyers purchasing homes priced within loan limits under the U.S. Department of Housing and Urban Development's (HUD) Section 203(b) single-family mortgage insurance program. In contrast, other HOME funds may be used to purchase, construct, or rehabilitate affordable housing for rent or ownership by low-income households or provide downpayment or direct rental assistance to low-income households. Another key distinction of the Initiative is that unlike other HOME funds used for homeownership assistance, the amount of Initiative assistance per homebuyer is limited to \$10,000 or 6 percent of the purchase price, whichever is greater.

The Act authorized up to \$200 million annually for fiscal years 2004 through 2007. As of October 2007, \$260 million had been appropriated, and \$204 million had been expended for the Initiative. Congress authorized an additional \$10 million for fiscal year 2008 for the Initiative. The Act also directed the U.S. Government Accountability Office (GAO) to perform a state-by-state analysis of the impact of the grants.

The objective of our audit was to determine whether HUD had adequate controls to ensure that downpayment assistance grantees did not exceed allowable downpayment assistance limits and that funds were used as required.

## RESULTS OF AUDIT

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### Finding: HUD's Process for Tracking the Initiative Had Weaknesses

HUD's process for tracking the Initiative had weaknesses as follows:

- HUD's Integrated Disbursement and Information System, used to track downpayment assistance, did not have the capability to separately track the Initiative's activities; and
- HUD did not ensure that activities reported via the system were only those activities outlined in the participating jurisdiction's HUD-approved consolidated plans.

GAO<sup>1</sup> reported similar problems in June 2006, but HUD did not take adequate action to correct them. HUD believed that its process for tracking the Initiative's activities was the most cost-effective way to track the Initiative and that redesigning the Integrated Disbursement and Information System specifically for the Initiative would be too costly. However, our audit showed that improved manual controls could be implemented to ensure that participating jurisdictions use Initiative funds as required.

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**HUD's Integrated Disbursement and Information System Was Not Capable of Separately Tracking the Initiative's Activities**

HUD relied on information captured by its Integrated Disbursement and Information System to track and report the Initiative's activities. The system is a nationwide database, which provides HUD with information regarding program activities including funding data. HUD uses this information to report to Congress and to monitor grantees. The system is also the drawdown and reporting system for the four Office of Community Planning and Development formula grant programs, which include Community Development Block Grants, HOME, Emergency Shelter Grants, and Housing Opportunities for People with AIDS.

The system allowed grantees to request their grant funding for the formula allocations but did not have the capability to separately track the Initiative's activities. Thus, participating jurisdictions and HUD field offices did not have an automated capability to track the Initiative as a separate program. Since HUD's information system was not capable of separately tracking the Initiative, HUD

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<sup>1</sup> GAO-06-677, HUD Homeownership Programs.

implemented workaround procedures to attempt to capture data on projects that met some of the basic criteria of the program, such as projects for downpayment assistance for first-time homebuyers. Under HUD's procedures, however, Initiative and non-Initiative HOME funds were comingled and were not tracked separately. Further, regardless of the total amount of downpayment assistance provided to the homebuyers reported via the system, the accomplishment reports prepared by HUD and used to report the total amount of the Initiative's funding disbursed always reflected the grantees' budgeted funding limits even if grantees exceeded the Initiative's downpayment assistance limits. If grantees exceeded the limits, HUD charged the excessive amount of the downpayment assistance to the participating jurisdiction's remaining HOME formula allocation. The problem with HUD's procedures is that the Act prohibits jurisdictions from exceeding \$10,000 or 6 percent of the purchase price of a home, whichever is greater. HUD had no assurance that participating jurisdictions complied with these requirements.

**HUD Prepared the Initiative's  
Accomplishment Reports  
without Reviewing  
Consolidated Plans**

According to 24 CFR [*Code of Federal Regulations*] 92.608, before receiving the Initiative's formula allocation, a participating jurisdiction must address the use of the Initiative's funds in its consolidated plan. The consolidated plan serves the following functions:

- Planning document for the jurisdiction, which builds on a participatory process among citizens, organizations, businesses, and other stakeholders;
- Submission for federal funds under HUD's formula grant programs for jurisdictions;
- Strategy to be followed in carrying out HUD programs; and
- Management tool for assessing performance and tracking results.

The consolidated plan also includes an action plan. The action plan must include the following:

- Description of planned use of the Initiative's funds,
- Plan for targeted outreach to residents and tenants of public and manufactured housing, and
- Description of actions taken to ensure suitability of families receiving the Initiative's assistance to undertake and maintain homeownership.

HUD's Office of Affordable Housing Programs was responsible for selecting which activities in the Integrated Disbursement and Information System qualified as Initiative activities, but it did not review or have knowledge of the activities

addressed in the participating jurisdiction's consolidated plan. The HUD field offices reviewed and approved the participating jurisdiction's consolidated plan. Since HUD's Office of Affordable Housing Programs did not review the approved plans before selecting the Initiative activities in its system, there is no assurance that activities selected by headquarters were activities associated with the participating jurisdiction's planned projects proposed in the approved consolidated plans.

Although our audit did not attempt to fully quantify the extent of misreporting of Initiative projects, GAO estimated during its review in 2005 that about 29 percent of the projects it reviewed that were shown as Initiative projects were actually non-Initiative projects.

### **GAO Reported Data Limitations with the Initiative**

According to the Cranston-Gonzalez National Affordability Housing Act, GAO was directed to perform a state-by-state analysis of the impact of the Initiative's grants by June 2006. However, GAO found significant limitations with the quality of the data provided via the Initiative and could not provide accurate conclusions about the impact of the Initiative's programs. Specifically, GAO found that data HUD reported on the Initiative's accomplishments included a mix of the Initiative and non-Initiative HOME projects. Consequently, GAO reported that the expenditures and accomplishments attributable to the Initiative might not be known. GAO further concluded that HUD's internal control for Initiative reporting did not meet GAO's standards because HUD could not be certain that the Initiative's expenditure and accomplishment data it reported were representative of the Initiative's projects.<sup>2</sup> GAO's standards call for controls that would appropriately classify projects so that the collected information maintains its relevance, value, and usefulness for controlling operations and making decisions.

GAO recommended that HUD develop and implement controls to ensure that expenditures and accomplishments attributed to the Initiative are accurate. HUD did not implement the GAO recommendations because it believed that its process for tracking the Initiative's activities was the most cost-effective way to track the Initiative and that redesigning the Integrated Disbursement and Information System specifically for the Initiative would be too costly. As of February 2008, HUD had awarded a contract and was in the process of performing a major redesign of the Integrated Disbursement and Information System. In awarding the contract, HUD decided that its redesign would not include implementing an improved mechanism to separately track the Initiative.

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<sup>2</sup> GAO issued these standards as required by 31 U.S.C. [United States Code] §3512 ©. Also see GAO Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1 (Washington, DC: November 1999), and GAO Internal Control Management and Evaluation Tool, GAO-01-1008G (Washington, DC: August 2001).

## Conclusion

Based on the data participating jurisdictions entered into the Integrated Disbursement and Information System, HUD prepared the Initiative's accomplishment detail reports. However, before publishing the monthly report on its Web site, HUD performed analyses to determine whether grantees were within the budgeted funding allocations. Specifically, HUD reviewed the information jurisdictions entered into the system to determine the purchase price and the amount of downpayment assistance provided to the homebuyer. HUD then calculated the amount of the activity that it would attribute to the Initiative, and it charged the excessive amounts to the participating jurisdiction's HOME program to ensure that HUD only applied \$10,000 or 6 percent of the purchase price of a unit to the Initiative funding. For example, if a grantee reported a downpayment assistance activity of \$20,000, HUD classified \$10,000 to the Initiative's budgeted amounts and the excessive amounts to the participating jurisdiction's HOME program formula allocation. HUD ensured that the amounts charged did not exceed the grantees' Initiative budget and that it did not report that established program limits had been exceeded.

HUD had not taken action to adequately track the Initiative or to correct the issues identified by GAO. As of October 2007, \$260 million had been appropriated, and \$204 million had been expended for the Initiative. Congress authorized an additional \$10 million for fiscal year 2008 for the Initiative. Although the funding levels have decreased in recent years for the Initiative, considerable funds remain to be expended. Improvements are needed to help ensure that participating jurisdictions use remaining Initiative funds as required. To this end, we recommend that HUD perform periodic analyses to ensure that information reflected on the Initiative's accomplishment reports is accurate and coincides with grantees' HUD-approved consolidated plans. If any of the reported information is found to be inaccurate, HUD needs to correct the appropriate reports and monetary figures.

## Recommendations

We recommend that the General Deputy Assistant Secretary for Community Planning and Development

- 1A. Direct responsible HUD staff to perform periodic analyses to ensure that information reflected on the Initiative's accomplishment reports is accurate and coincides with the grantees' HUD-approved consolidated plans. If any of the reported information is found to be inaccurate, HUD needs to correct the appropriate reports and monetary figures.



## SCOPE AND METHODOLOGY

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To accomplish our objectives, we performed the following:

- Reviewed HUD's processes and controls in effect to ensure that downpayment assistance grantees did not exceed allowable downpayment assistance.
- Contacted HUD OIG's computer-assisted audit techniques specialist and obtained tables from HUD's Integrated Disbursement and Information System.
- Reviewed and performed queries on the Integrated Disbursement and Information System tables using ACL software to determine whether grantees exceeded the allowable downpayment assistance.
- Reviewed applicable federal regulations and other applicable information concerning the Initiative found on the HUD Web site.
- Conducted interviews with Office of Community Planning and Development headquarters personnel and other government officials such as GAO personnel.

We performed our audit work between August and December 2007 at HUD headquarters located in Washington, DC, and at the HUD field office located in Baltimore, Maryland. The audit covered the period January 2004 through July 2007 but was expanded when necessary to include other periods. To achieve our audit objective, we relied in part on computer-processed data in HUD's database. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We performed our audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weakness

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

- The process HUD used to track the Initiative was inadequate.

# APPENDIX

## Appendix A

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Auditee Comments



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

OFFICE OF COMMUNITY PLANNING  
AND DEVELOPMENT

MAR 19 2008

MEMORANDUM FOR: John P. Buck, Supervisory Auditor, Office of Inspector General,  
Philadelphia Office, 3A07

FROM:   
Manuel T. Ochoa, Deputy Assistant Secretary for Grant Programs, DG

SUBJECT: OIG Draft Audit Report – Tracking the American Dream  
Downpayment Initiative

Thank you for taking the time to meet with CPD staff at the exit conference held on March 13, 2008, to discuss the OIG draft audit report: "HUD's Process for Tracking the American Dream Downpayment Initiative Had Weaknesses". Our comments on the draft audit follow.

As was explained in the conference, CPD made every effort possible, under numerous constraints at the time that we have previously described, to plan for and set up a system to track activity and performance under ADDI, and to have that system in place by the time the program was approved in December 2003. These efforts succeeded in producing a tracking system on time and at no additional cost to taxpayers. CPD is able to state with full confidence that the software program developed within the Office of Affordable Housing Programs as a reporting interface with the Integrated Disbursement and Information System (IDIS) does not permit grantees to exceed allowable downpayment assistance limits under ADDI, and provides evidence that ADDI funds were used for the intended purpose.

Having said that, CPD finds acceptable the Regional Inspector General for Audit's recommendation that, to the extent a grantee's HUD-approved consolidated plan provides sufficient project-specific information on proposed ADDI activities, HUD would be expected to check for and identify inconsistencies with actual production as shown on the American Dream Downpayment Initiative's Accomplishments' Report, posted monthly on the HOME program website. Inconsistencies, if any, should be corrected as may be necessary. In addition, the Department will provide the Regional Inspector General for Audit copies of any correspondence or directives issued because of the audit.

Thank you for your interest in the Department's programs.

www.hud.gov

espanol.hud.gov

Comment 1

## **OIG Evaluation of Auditee Comments**

**Comment 1** HUD did in fact have controls in place to ensure that grantees did not exceed allowable downpayment assistance limits and that funds were used as required, but the controls had weaknesses. Given these weaknesses, we are pleased that HUD has agreed to perform periodic analyses to ensure that information reflected on the Initiative's accomplishment reports is accurate and coincides with the grantees' HUD-approved consolidated plans.