



**U. S. Department of Housing and Urban Development  
Office of Inspector General**

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MEMORANDUM FOR: Jack Peters, Director, Region X, Office of Community Planning and Development, OAD

*Joan S. Hobbs*

FROM: Joan S. Hobbs  
Regional Inspector General for Audit, Region X, OAGA

SUBJECT: The State of Washington Did Not Always Allocate Its  
Neighborhood Stabilization Program Funds Based on Greatest  
Need

### **INTRODUCTION**

We audited the State of Washington's (State) Neighborhood Stabilization Program (Program). The audit was part of our fiscal year 2009 annual audit plan. We selected the State because it was responsible for the distribution of funds to the entitlement areas, as well as to nonentitlement areas, of the State. Our objective was to determine whether the State's Program implementation was compliant with U.S. Department of Housing and Urban Development (HUD) requirements. Specifically, we wanted to determine whether

- The State's selection of the subrecipients was based on greatest need,
- The subrecipients' proposals contained only eligible activities, and
- The subrecipients had the capacity to administer the funds.

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.

## **SCOPE AND METHODOLOGY**

To accomplish our objective, we reviewed

- Applicable laws; the *Federal Register*, dated October 6, 2008; HUD's regulations at 24 CFR [*Code of Federal Regulations*] Parts 85 and 91; and other HUD guidance;
- Community Planning and Development Regional Office files for the State's Program grant; and
- The State's 2008 Action Plan Amendment for the Program, policies and procedures, subrecipients' proposals, draft contracts with subrecipients, Community Development Block Grant monitoring files, and financial reports.

We also interviewed the State's employees and HUD's staff.

We performed our on-site audit work from June through July 2009 at the State's office located in Olympia, Washington. The audit covered the period October 2008 through July 2009.

This was a limited scope review. Therefore, our work was not performed in accordance with generally accepted government auditing standards.

## **BACKGROUND**

***The Program.*** Authorized under Title III of the Housing and Economic Recovery Act (Act), as amended, the Program provides grants to every state and certain local communities to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem the decline in value of neighboring homes. HUD allocated more than \$3.9 billion in Program funds to grantees.

***The State.*** HUD allocated nearly \$28.2 million in Program funds to the State based upon the funding formula developed by HUD pursuant to the Act. On March 20, 2009, HUD entered into a grant agreement with the State's Department of Community, Trade, and Economic Development for the full amount allocated. Effective July 26, 2009, this department changed its name to the Department of Commerce.

Congress amended its Program and increased its funding as part of the American Reinvestment and Recovery Act of 2009 (Recovery Act). The State submitted an application, dated July 16, 2009 for additional Program funds under the Recovery Act. The application is under review by HUD.

## **RESULTS OF REVIEW**

The State's Program implementation was generally compliant with HUD requirements. However, the distribution was not entirely based on greatest need. This condition occurred because the State misinterpreted foreclosure need score data obtained from the Local Initiatives Support Corporation. As a result, some communities received excessive allocations, while others that had a greater need did not receive an allocation.

According to the Program’s statutory requirements, grantees must distribute funds to areas with the greatest need. The State determined which areas had the greatest need by using foreclosure need score data from two datasets created by the Local Initiatives Support Corporation. One dataset contained foreclosure “needs scores” for Community Development Block Grant jurisdictions (entitlement areas), and one dataset contained the “needs scores” at the ZIP Code level within each state (all communities including entitlement areas). These scores incorporated measures of subprime lending, foreclosures, delinquency, and vacancies to help state and local officials quickly assess the relative needs of different jurisdictions for Program funding within each state and allocate funds accordingly.

The State used both datasets for its distribution; however, the databases were not comparable. The dataset methodology stated, “Users are advised NOT to compare foreclosure needs scores at the ZIP Code level with CDBG [Community Development Block Grant] Jurisdiction needs scores, as each set of scores is based on an independent ranking system.” As a result, some of the Community Development Block Grant jurisdictions did not receive funds although they had a greater need than some of the smaller communities that were funded.

During our review, we noted that after its initial allocation, the State had \$1.3 million available for distribution because two of the subrecipients declined to participate in the program after initially notifying the State that they intended to participate. The State planned to hold these funds in reserve to be distributed at a later date to subrecipients that were timely in expending their funding and could obligate the funding before HUD’s September 18, 2010, deadline. We recommended that these funds be offered to three communities that had not previously received funding and three existing subrecipients that were underfunded based on their foreclosure need score ranking. The State agreed with our audit recommendations and has already taken corrective action (see appendix A for details).

### **RECOMMENDATION**

We recommend that the Seattle Office of Community Planning and Development ensure that the State

- 1A. Awards the \$1.3 million in Program funds to subrecipients that were not funded or were underfunded so that these funds will be used for communities that had a greater need than some of the communities that received funding.
- 1B. Ensure it fully understands external data before using it to make future allocations of funds.

### **AUDITEE’S RESPONSE**

We provided a discussion draft memorandum report to the auditee on August 25, 2009, and held an exit conference with its staff on September 8, 2009. The State chose not to provide any written comments. It agreed with our findings and recommendations.

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## Appendix A

### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use <u>1/</u>
1A	\$1,335,314

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. The amount in this report represents funds that would have been distributed to the existing subrecipients if our recommendation had not been implemented. The State has already implemented our recommendation.

## Appendix A-1

### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE BY SUBRECIPIENT

Subrecipient	County	Final State distribution	Audit determined distribution	Funds to be put to better use
Aberdeen	Grays Harbor	\$756,938	\$756,938	
Bellingham*	Whatcom	*	343,666	\$343,666
Centralia **	Lewis	391,315	**	
Clark County	Clark	1,577,664	1,577,664	
Everett	Snohomish	546,899	546,899	
Federal Way	King	651,688	651,688	
Hoquiam	Grays Harbor	448,918	448,918	
Kelso	Cowlitz	430,326	514,472	84,146
Kennewick	Benton	*	402,364	402,364
Kent	King	475,264	475,264	
King County	King	2,285,126	2,465,051	179,925
Kitsap County	Kitsap	671,745	862,836	191,091
Lacey	Thurston	356,065	356,065	
Lakewood	Pierce	626,793	626,793	
Moses Lake	Grant	329,666	329,666	
Pasco	Franklin	402,141	402,141	
Pierce County	Pierce	4,692,761	4,692,761	
Richland	Benton	*	134,121	134,121
Seattle	King	458,126	458,126	
Sedro-Woolley ***	Skagit	***	***	
Shelton **	Mason	943,998	**	
Snohomish County	Snohomish	2,313,822	2,313,822	
Spokane	Spokane	1,085,281	1,085,281	
Spokane County	Spokane	689,625	689,625	

<b>Subrecipient</b>	<b>County</b>	<b>Final State distribution</b>	<b>Audit determined distribution</b>	<b>Funds to be put to better use</b>
Sunnyside	Yakima	622,508	622,508	
Tacoma	Pierce	3,083,548	3,083,548	
Toppenish	Yakima	252,351	252,351	
Vancouver	Clark	802,767	802,767	
Walla Walla	Walla Walla	306,974	306,974	
Wapato	Yakima	257,900	257,900	
Yakima	Yakima	650,614	650,614	
Yelm	Thurston	640,505	640,505	
State reserves **		1,335,313		
State administrative funds		<u>1,407,965</u>	<u>1,407,965</u>	<u>                    </u>
Totals		<u>\$28,159,293</u>	<u>\$28,159,293</u>	<u>\$1,335,313</u>

\* These Community Development Block Grant jurisdictions did not initially receive funds although they had a greater need than some of the smaller communities that were funded.

\*\* Two subrecipients decided not to participate after the final distribution was made. The State was holding these funds in reserve to be distributed at a later date to subrecipients that were obligating the funds in a timely manner. However, as a result of our audit, the State will redistribute these funds to communities that had previously not received funding or that had initially been underfunded.

\*\*\* Sedro Woolley decided not to participate after HUD approved the Washington State Action Plan Amendment, dated December 2008. The State distributed the Sedro Woolley funds to the smaller communities and published a January 29, 2009 Final NSP Distribution List on its Web site.