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MEMORANDUM NO.:
2009-FW-0802

September 24, 2009

MEMORANDUM FOR: Anthony P. Scardino, Acting Deputy Chief Financial Officer, F

//signed//

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: Evaluation of the Front-End Risk Assessment for the Community Development Block Grant Recovery Program

INTRODUCTION

We evaluated the U. S. Department of Housing and Urban Development's (HUD) front-end risk assessment for the Community Development Block Grant Recovery (CDBG-R) grant. We wanted to determine whether the assessment complied with the Office of Management and Budget's (OMB) updated guidance for the American Recovery and Reinvestment Act of 2009 (Recovery Act), as well as HUD's streamlined assessment process.

There are no recommendations in this memorandum. Should you or your staff have any questions, please contact me at 817-978-9309 or Jacob Williams, Assistant Regional Inspector General for Audit, at 713-718-3191.

METHODOLOGY AND SCOPE

Using OMB's publication, "Implementing Guidance for the American Recovery and Reinvestment Act of 2009" (OMB's Guidance), and HUD's streamlined assessment process, we evaluated 11 factors in the following five categories against the final assessment for CDBG-R to ensure that the major objectives were sufficiently emphasized:

- **General control environment** (factor 1 - legislative and factor 2 - program/organization structure);
- **Risk assessment** (factor 3 - program objectives/performance measures and factor 4 - program structure/administration);
- **Control activities** (factor 5 - coverage by written and other procedures, factor 6 - systems, and factor 7 - funding/funds control and organizational checks and balances);
- **Information/communication** (factor 8 - management attitude and factor 9 - reporting and documentation); and
- **Monitoring** (factor 10 - monitoring and factor 11 - special concerns or impacts).

We also determined whether the final assessment for the CDBG-R program sufficiently and properly emphasized the major program objectives of timeliness, clear and measurable objectives, transparency, monitoring, and reporting.

We performed our work from July through August 2009 at our office in Houston, Texas. For this report, our work was not conducted in accordance with generally accepted government auditing standards. Under the Recovery Act, inspectors general are expected to be proactive and focus on prevention; thus, this report is significantly reduced in scope.

BACKGROUND

The Recovery Act includes a \$1 billion appropriation in Community Development Block Grant (CDBG) funds to state and local governments to expedite carrying out eligible activities under the CDBG program. The Recovery Act requires that the funds be distributed to grantees that received CDBG funding in fiscal year 2008 on a formula basis. The CDBG-R program is administered by the Office of Block Grant Assistance within the Office of Community Planning and Development (CPD).

The primary objective of the CDBG program is to develop viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. CDBG-R program funds are to be used to maximize job retention and creation and economic benefit and carry out infrastructure improvements on an expedited basis.

The new funding provided under the Recovery Act will require an ongoing evaluation and analysis of risk and continued monitoring to work toward achieving the goals of the legislation. In applying OMB's Guidance regarding risk management, HUD will incorporate elements of its existing assessment process. The streamlined assessment process will build upon the analysis and work that is underway to implement the Recovery Act provisions, maximizing the use of documents and materials available and supplementing as needed to ensure that internal controls are in place.

OMB's Guidance provides an accountability risk framework that shows objectives under phases of the funding life cycle. It lists the following "accountability objectives" that apply to all agencies and programs:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefit of these funds is reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes, and instances of fraud, waste, error, and abuse are mitigated;
- Projects funded under this Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results, on broader economic indicators.

OMB's Guidance also discusses program-specific risks to be identified through the assessment process. Given the nature and purpose of the Recovery Act, the following objectives require emphasis:

- **Timeliness**—For every program step, it is critical to consider timing and whether the actions can be taken within the required timeframe.
- **Clear and measurable objectives**—All funds will be tracked to show results. It is critical to have clear and measurable outputs and outcomes and to have tracking mechanisms in place.
- **Transparency**—Information about how all funds are awarded, distributed, and used and what results are achieved must be available to the public.
- **Monitoring**—Workable plans for monitoring programs and related funds must be in place and must be carried out.
- **Reporting**—Identifying and tracking all funding under the Recovery Act are critical and must be reported on regularly.

RESULTS OF REVIEW

Except for the noncompliance and minor inconsistency errors cited below, HUD's final assessment for CDBG-R adequately identified program risk, identified in-place and planned risk mitigation techniques, and adequately described the rationale for the final risk ratings for the 11 factors. Further, HUD's final assessment for CDBG-R adequately emphasized the major program objectives of timeliness, clear and measurable objectives, transparency, monitoring, and reporting in the assessment.

Timeliness:

The legislation urges grantees to select projects that can be underway within 120 days of grantees' receipt of funds. Further, the legislation requires the Secretary of HUD to obligate all CDBG-R funds by September 30, 2010. With the accelerated schedule of implementation, HUD expects most funds to be approved by December 31, 2010.

Grantees must expend at least 50 percent of the allocated CDBG-R funds within two years of the date that funds are available to them for obligation. Grantees must also expend 100 percent of their allocations within three years of the date that funds are available for obligation. HUD will use its Integrated Disbursement and Information System (IDIS) to remotely track timeliness.

Clear and Measurable Objectives:

Mechanisms were in place to measure and track outputs and outcomes. HUD had identified the risk measures and how these measures will be evaluated. Outputs and outcomes will be tracked through IDIS.

The CDBG-R program's overall objectives will remain consistent with the conventional CDBG program. Under the Recovery Act, grantees have the discretion to choose activities for funding, subject to the limitations of the Recovery Act as well as the guidelines for responsible spending

outlined in a presidential memorandum, dated March 30, 2009. Grantees provide specific performance measures and goals for each selected activity to HUD in IDIS. This information links to the overall objectives and outcomes of the program.

The Recovery Act adds several new outcomes that are expected from the CDBG-R funding, including expedited program implementation and job creation. HUD recognized that IDIS needed upgrades and modifications to track the additional objectives.

Transparency:

According to the assessment, HUD expects IDIS to capture accountability and transparency information via modifications to track CDBG-R issues. HUD allocated \$10 million to upgrade IDIS to meet changes mandated by OMB. IDIS has been undergoing an upgrade and will incorporate further modifications for the CDBG-R funding. According to the assessment, HUD staff analyzed the need to include such items as job creation data for all activities and the reporting required on timely fund expenditure and concluded that these requirements can be met with certain modifications.

HUD expects that the transparency requirements of the Recovery Act, including the requirement to publish both spending and recipient performance reports, will create accountability among its managers and grantees. HUD is requiring CDBG-R grantees to submit a list of proposed activities along with a substantial action plan amendment. CDBG-R grantees will forward these activities to HUD on a spreadsheet. HUD will post all proposed activities to its Recovery Act Web site for public review and comment. HUD will post the final approved activities after it approves them.

Monitoring:

HUD's oversight responsibilities for the CDBG-R grants are largely the same as those for the annual CDBG program grant. However, monitoring of the CDBG program has been limited by a lack of personnel and travel funds. Therefore, HUD planned to hire additional staff for technical assistance and monitoring for the CDBG-R program.

The Office of Block Grant Assistance established monitoring procedures based on risk assessments performed by field offices. Monitoring includes reviewing and closing audit findings to ensure that grantee performance is in accordance with all laws and regulations. Field offices will use on-site monitoring for high-risk grantees and remote or desk monitoring for a certain percentage of lower risk grantees. CPD will refine its monitoring assessment to account for problems that certain grantees may experience with CDBG-R projects. Headquarters will coordinate with the field offices to determine the amount of staff required for monitoring functions, whether through permanent HUD employees, term employees, or contractors. HUD will monitor each grantee to ensure that it uses funds for HUD-approved activities.

Reporting:

The grantees are required to maintain separate tracking and reporting systems for CDBG-R funds. The Recovery Act legislation and OMB's Guidance also require quarterly reporting,

rather than annual reporting as in the conventional CDBG program. Reports will capture additional information that is not generally provided in the regular CDBG program. HUD plans to develop limited training on the new reporting requirements. HUD believes that more frequent reporting should enable it to identify problems more quickly and clearly than the conventional annual reporting cycle.

HUD Did Not Comply with OMB's Guidance That Required It to Comment on Open Audit Recommendations

HUD did not comply with section 3.10 of OMB's Guidance. The guidance provides the following instructions to agencies developing such a plan:

Agencies should also begin their planning by determining whether final action has been taken regarding weaknesses or deficiencies disclosed by prior audits and investigations in program areas under which Recovery Act funds are authorized. If final action has not been completed, agencies should: (1) expedite such action to preclude the continuance of such weaknesses or deficiencies in the administration of Recovery Act funded programs; or (2) provide an explanation of why such corrective actions cannot or should not be taken in the administration of Recovery Act funded programs.

During 2006 and 2007, the Office of Inspector General (OIG) performed an audit of HUD's CDBG program and issued a report on December 31, 2007 (report number 2008-NY-0001), that contained several recommendations. Five of the recommendations that could have affected our review objectives remain open and overdue. Although HUD made general references to previous audits in its assessment, it did not specifically address the open recommendations cited in the report as required by OMB. The open recommendations, listed by original recommendation number, that could have affected our review objectives include

1B. Design a performance measurement system that allows HUD to report, not just outputs, but also meaningful outcomes, such as the extent to which grantees meet their own goals and the objectives of the CDBG program.

1C. Design a ranking and rating scoring system for the individual CDBG grantees so that HUD and stakeholders can identify and address both good and poor program performers.

1D. Continue to assess and improve IDIS so that data used for reporting can be relied upon as an accurate and complete representation of CDBG grantee program performance.

2A. Establish controls to ensure that CPD monitoring efforts are consistently applied, streamlined to emphasize high-impact activities, and focus on promoting improvements in program participant performance.

2B. Establish controls that will assess the impact of CPD monitoring on grantee performance so as to ensure that grantee compliance with recommendations relates to overall performance.

The assessment states that the CDBG-R will be administered as the CDBG program is administered. Therefore, the above recommendations should have been considered in the context of the assessment, and HUD should have explained why it has not taken corrective action. OMB's Guidance requires HUD to either expedite corrective action to preclude the continuance of such weaknesses or deficiencies in the administration of Recovery Act-funded programs or provide an explanation of why such corrective actions cannot or should not be taken in the administration of Recovery Act-funded programs.

Also, IDIS, which HUD staff and field office staff rely heavily on to monitor the CDBG-R program, remains a concern because OIG had reported that after HUD's many updates and redesigns to improve the accuracy and usefulness of IDIS, CPD field officials continued to have major concerns with its reliability. However, the assessment did not address these concerns. The assessment only discussed the modifications of IDIS to accommodate the changes of the CDBG-R requirements. Specifically, the final assessment stated that the existing IDIS system and other management systems have tracked performance outcomes for many years with few problems, and only small but numerous changes must occur for IDIS to meet the needs of CDBG-R such as added data fields for new jobs, quarterly report, etc.

HUD's Assessment Contained Minor Inconsistencies

The final assessment contained inconsistencies in planned staffing levels and target dates for training and technical assistance.

The final assessment was inconsistent regarding the number of staff to be hired. The narrative description for organizational structure and staffing stated that CPD planned to hire 32 additional staff members in three-year-term limited positions to support CDBG-R and Neighborhood Stabilization Program 2 programs. However, the narrative description for monitoring and the summary of program risks indicated that only 28 staff members were to be hired. An analysis table provided in the narrative also justified increasing staffing levels by only 28 CPD positions.

The target date to complete training and technical assistance was inconsistent in the final assessment. At one point, the final assessment claimed that training and technical assistance would be completed by October 31, 2009; while at another point, it claimed that training and technical assistance would be completed by November 30, 2009. However, in the summary of program risk and planned actions, the target completion date was September 30, 2009.

CONCLUSION

Except for the noncompliance and errors cited above, HUD's final assessment for CDBG-R adequately addressed general control environment, risk assessment, control activities, information/communication, and monitoring. It also adequately emphasized the major program objectives of timeliness, clear and measurable objectives, transparency, monitoring, and reporting.

RECOMMENDATIONS

Based on the review results, this memorandum contains no recommendations.

AUDITEE'S RESPONSE

We provided our draft audit memorandum to HUD's Acting Deputy Chief Financial Officer on September 15, 2009. HUD declined our offer to provide written comments on the draft audit memorandum.