



U.S. Department of Housing and Urban Development

Office of Inspector General

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| October 26, 2009 |
| Audit Report Number |
| 2010-LA-0802 |

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

Joan S. Hobbs

FROM: Joan S. Hobbs
Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: Evaluation of the Final Front-End Risk Assessment for the Native American Housing Block Grant Program

INTRODUCTION

We reviewed the Office of Native American Programs' (ONAP) Front-End Risk Assessment (FERA) for the American Recovery and Reinvestment Act of 2009 (Recovery Act) funding for Native American Block Grant housing programs as part of our annual audit plan. Our objective was to determine whether the FERA complied with the Office of Management and Budget's (OMB) guidance for implementation of the Recovery Act, the Recovery Act's streamlined FERA process, and U.S. Department of Housing and Urban Development (HUD) Handbook 1840.1, Departmental Management Control Program.

SCOPE AND METHODOLOGY

Using OMB's Implementing Guidance for the American Recovery and Reinvestment Act of 2009, the Recovery Act's streamlined FERA process, and the Departmental Management Control Program handbook, we evaluated the following factors against the final FERA for Native American housing programs to ensure that the major objectives were sufficiently emphasized:

- **General control environment** (legislative and program/organization structure),
- **Risk assessment** (program objectives/performance measures and program structure/administration),

- **Control activities** (coverage by written and other procedures, systems, and funding/funds control and organizational checks and balances),
- **Information/communication** (management attitude and reporting and documentation), and
- **Monitoring** (monitoring and special concerns or impacts).

We also included our determination on compliance and whether the final FERA for Native American housing programs sufficiently and properly emphasized the major program objectives of timeliness, clear and measurable objectives, transparency, monitoring, and reporting.

We performed our review work from June through September 2009 at the HUD office in Seattle, Washington. The review covered the period October 2008 through July 2009. It was significantly reduced in scope to meet the timeframes of the Recovery Act. Consequently, we did not conduct the review in accordance with generally accepted government auditing standards but obtained sufficient evidence to provide a reasonable basis for our conclusions.

BACKGROUND

The Recovery Act

The Recovery Act became Public Law 111-5 on February 17, 2009. The Recovery Act makes supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, state and local fiscal stabilization, and other purposes. The Recovery Act institutes strict obligation and expenditure deadlines with secretarial recapture and reallocation authority. The HUD Secretary also has waiver authority and may direct that procurement requirements under state and local laws do not apply.

Division A, Title XII, of the Recovery Act provided for the appropriation of \$510 million for Native American Housing Block Grants. These grants were originally authorized under Title I of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). HUD awarded \$255 million based on its allocation formula, and an additional \$242.25 million was awarded competitively.

The Recovery Act provides two additional grants for Native Americans. It includes NAHASDA funding for a Native Hawaiian Housing Block Grant of \$10.2 million. Also, an additional \$10 million in competitive Indian Community Development Block Grants are funded through a set-aside of the Community Development Block Grant formula in Title 1 of the Housing and Community Development Act of 1974 (42 U.S.C. (*United States Code*) 5306).

The NAHASDA Program

HUD's Indian housing programs and ONAP's accompanying role have evolved from a rigid regulatory structure to one with an emphasis on flexibility. Program rules have changed to give Indian housing authorities more flexibility in administering their housing programs but have not provided a control structure that ensures accountability for their performance. ONAP has oversight responsibility to ensure that Indian housing authorities administer HUD-funded Indian housing programs in compliance with the rules. Under NAHASDA, emphasis is placed on recognizing the right of Indian self-determination and tribal self-governance, and developing effective partnerships among Federal and tribal governments, which has led to a greater emphasis on technical assistance in administering the IHBG program.

The Risk Assessment

Since this was a new program, ONAP was required to perform a front-end risk assessment. The new funding provided under the Recovery Act also requires an ongoing evaluation and analysis of risk and continued monitoring to work toward achieving the goals of the legislation. In applying the Recovery Act's implementing guidance, HUD will incorporate elements of its existing FERA process. The streamlined FERA process will build upon the analysis and work that is underway to implement 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 publication, "Implementing Guidance for the American Recovery and Reinvestment Act of 2009," 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 FERA 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 is critical and must be reported on regularly.

RESULTS OF REVIEW

The FERA was generally prepared in accordance with OMB requirements and the Recovery Act programs are similar to the existing NAHASDA program. We perceive that the overall risks will also be similar to those under NAHASDA, except for those associated with the additional workloads.

The FERA stated that ONAP planned to fill 34 existing vacancies and hire an additional 12 temporary employees to meet the increased reporting requirements and other responsibilities under the Recovery Act. However, if ONAP hires a significant number of new staff, it will need to ensure that the new staff members receive sufficient and timely training to be effective in the administration and oversight of Recovery Act funds.

CONCLUSION

ONAP's FERA generally complied with OMB's guidance for implementation of the Recovery Act, the Recovery Act's streamlined FERA process, and HUD Handbook 1840.1, Departmental Management Control Program.

AUDITEE'S RESPONSE

We provided a discussion draft memorandum report to the auditee on October 16, 2009, the auditee provided its response on October 21, 2009.

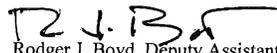
The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

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| OFFICE OF PUBLIC AND INDIAN HOUSING | | | | |
| OCT 21 2009 | | | | |
| MEMORANDUM FOR: | Joan S. Hobbs, Regional Inspector General for Audit, 9DGA | | | |
| FROM: |  Roger J. Boyd, Deputy Assistant Secretary for Native American Programs, PN | | | |
| SUBJECT: | OIG Draft Audit Report Number 2010-LA-08XX Evaluation of the Final Front-End Risk Assessment for the Native American Housing Block Grant Program Auditee Comments | | | |
| <p>This memorandum responds to the draft audit report, Evaluation of the Final Front-End Risk Assessment (FERA) for the Native American Housing Block Grant program. I have read the draft report and agree with the conclusion that the FERA for the Recovery Act programs administered by the Office of Native American Programs (ONAP) was found in compliance.</p> <p>Regarding the statement on page 3, under <i>The NAHASDA Program</i> section, the last sentence states that ONAP's "focus has shifted from monitoring fiscal integrity and program compliance in the operation of Indian housing programs to a partnership role with the authorities, which emphasizes technical assistance." Given ONAP's active monitoring program and aggressive enforcement actions, I request that the sentence be reworded to reflect a more accurate description of ONAP's relationship with the Indian Housing Block Grant recipients. I suggest the following statement as a replacement: <i>Under the Native American Housing Assistance and Self-Determination Act emphasis is placed on recognizing the right of Indian self-determination and tribal self-governance and developing effective partnerships among Federal and tribal governments, which has led to a greater emphasis on technical assistance in administering the IHBG program.</i></p> <p>cc: Anthony P. Scardina, Acting Deputy Chief Financial Officer, F Frank J. Murphy, Assistant Chief Financial Officer for Financial Management, FM Peter Grace, Special Assistant to the Secretary, Office of the Secretary, S Elizabeth Willmott, Senior Program Manager for Economic Recovery, F James M. Parrott, Counsel, Office of the Secretary, S</p> | | | | |
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Comment 1

OIG Evaluation of Auditee Comments

Comment 1 We provided a discussion draft audit memorandum report to the auditee on October 16, 2009. The auditee provided a written response on October 21, 2009. We adjusted the background section for their comments, however, what the auditee describes as “active monitoring and aggressive enforcement” remain unaudited. We have not assessed how this description correlates to the department’s interpretation of Indian self-determination and tribal self-governance.