audit report

Issue Date May 20, 2011	
Audit Report Number 2011-FO-0005	

TO: Douglas A. Criscitello, Chief Financial Officer, F

//s//

FROM: Thomas R. McEnanly, Director, Financial Audits Division, GAF

SUBJECT: HUD Can Improve Its Oversight of ARRA Obligation and Expenditure Requirements

HIGHLIGHTS

What We Audited and Why

We performed an audit of the U.S. Department of Housing and Urban Development's (HUD) compliance with obligation deadlines and progress toward meeting expenditure requirements related to eight programs funded by the American Recovery and Reinvestment Act of 2009 (ARRA). These HUD programs received $13.61 billion in ARRA funding. The ARRA funds were intended to stimulate the economy, and their commitment, obligation, and expenditure should be consistent with ARRA and other applicable law.

The objectives of our review were to determine whether HUD obligated ARRA funds in accordance with applicable deadlines and to assess HUD's oversight of grantees' expenditure of ARRA funds and HUD's internal requirements. This audit was conducted in conjuction with our annual audit of HUD's financial statements.

What We Found

HUD can improve its oversight of ARRA obligation and expenditure requirements. Our review determined that $1.6 million in Public Housing Capital Fund and Native American Housing Block Grant funds, recaptured after July 21, 2010, must be returned to the U.S. Treasury under the provisions of the Pay it Back Act.[1] Additionally, we found that ARRA monitoring and oversight could be better documented in HUD's funds control plans.

What We Recommend

We recommend that the Office of the Chief Financial Officer ensure that the $1.6 million in recaptured funds is returned to the U.S. Treasury as required by the Pay it Back Act. We also recommend that the Office of the Chief Financial Officer establish and implement procedures to ensure the accuracy and completeness of ARRA funds control plans.

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 HUD with a copy of the draft report on March 25, 2011 and requested written comments by April 25, 2011. We received the written response on April 25, 2011. HUD generally agreed with the audit recommendation.

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

[1] Public Law 111-203, Dodd-Frank Wall Street Reform and Consumer Protection Act, Title XIII - Pay It Back Act, Section 1306, Repayment of Unobligated ARRA Funds, and Section 1613, Withdrawal or Recapture of Unobligated Funds, amend Public Law 111-5, 123 Stat.305, American Recovery and Reinvestment Act of 2009, to require the return of unobligated and recaptured funds and repayment of those funds to the U.S. Treasury.

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BACKGROUND AND OBJECTIVES

Public Law 111-005, the American Recovery and Reinvestment Act of 2009 (ARRA), was signed into law on February 17, 2009, and was intended to provide supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization for the fiscal year ending September 30, 2009. Below is a brief description of the programs reviewed for compliance with ARRA obligation and expenditure requirements.

Community Development Fund (Also Known as Community Development Block Grants)
The Community Development Fund consists of the Community Development Block Grant (CDBG) program and the Neighborhood Stabilization Program (NSP). CDBG provides funds to local governments for a wide range of activities intended to create suitable living environments, provide decent affordable housing, and create economic opportunities, primarily for people of low and moderate income. NSP provides grants for the redevelopment of abandoned and foreclosed-upon homes. CDBG program recipients must have obligated their funds by September 30, 2010, and expend 100 percent of their allocations by September 30, 2012. NSP program recipients must have obligated their funds by February 16, 2010, and expend 50 percent within two years of the date the funds became available to the grantee for obligation and 100 percent within three years of such date.

Lead Hazard Reduction
The Lead Hazard Reduction program is composed of the Lead-Based Paint Hazard Control grant program that assists States, Native American tribes, cities, counties/parishes, or other units of local government in identifying and controlling lead-based paint hazards in privately owned rental or owner-occupied housing. ARRA provided funding for the following grant programs: Lead-Based Paint Hazard Control, Lead Hazard Reduction Demonstration, Healthy Homes Demonstration, and Healthy Homes Technical Studies. Grantees must obligate the funds by September 30, 2011, and expend at least 50 percent of such funds within two years of the date on which funds became available for obligation and 100 percent within three years of such date.

Homelessness Prevention Fund (Also Known as Emergency Shelter Grants)
The Homelessness Prevention Fund provides financial assistance and services to prevent individuals and families from becoming homeless and help those that are experiencing homelessness to be quickly rehoused and stabilized. The funds will provide for assistance to include short-term or medium-term rental assistance, housing relocation, and stabilization services. Grantees must obligate the funds by September 30, 2011, and expend at least 60 percent of funds within two years of the date that funds became available for obligation and 100 percent within three years of such date.

HOME Investment Partnerships Program (Also Known as the Tax Credit Assistance Program)
The Tax Credit Assistance Program (TCAP) provides grants for capital investments in low-income housing tax credit projects. Funds are provided to the housing credit agencies in each State by a formula-based allocation. The housing credit agencies in each State will distribute

these funds competitively according to their qualified allocation plan. Grantees must obligate the funds by September 30, 2011, and expend 75 percent of the funds within two years of ARRA enactment and 100 percent of the funds within three years of ARRA enactment.

Project-Based Rental Assistance

The Section 8 program provides rental subsidies for eligible tenant families residing in newly constructed, rehabilitated, and existing rental and cooperative apartment projects. This program was awarded $2 billion to fund contract renewals under the Section 8 program. HUD will use the money provided to fund contract renewals on a full 12-month cycle to owners of multifamily rental housing. More than 6,000 existing contracts with more than 450,000 assisted families will receive additional funding as a result of ARRA. Obligation and expenditure requirements do not apply to the Project Based Rental Assistance program.

Public Housing Capital Fund

The Public Housing Capital Fund provides funds for the capital and management activities of public housing agencies as authorized under Section 9 of the U.S. Housing Act of 1937. These activities include the modernization and development of public housing. Funds from this program cannot be used for operations or rental assistance. ARRA requires that public housing agencies give priority to capital projects that can award contracts based on bids within 120 days from the date the funds are made available to the agencies. Grantees must have obligated the funds provided under the competitive method by September 30, 2009, and funds under the formula method by March 19, 2009. Grantees must have expended at least 60 percent of the funds within two years of the date on which funds became available for obligation and 100 percent within three years of such date.

Green Retrofit Program

Grants and loans will be made available through HUD’s Office of Affordable Housing Preservation for eligible property owners to make energy and green retrofit investments in their property. There are two program elements: project grants and direct loans. The grant amount will be up to $15,000 per unit, based upon HUD review and owner acceptance of an assessment of property needs and opportunities for energy and green retrofits. Grantees must have obligated funds by September 30, 2010, and expended funds within two years from the time they received the funds.

Native American Housing Block Grants

The Native American Housing Block Grant program funds new construction, acquisition, rehabilitation, and infrastructure development activities. Funds can also be used to leverage private-sector financing for new construction, renovation, and energy retrofit investments. HUD must have obligated the funds provided under the formula method by March 19, 2009, and funds under the competitive method by September 30, 2009. Grantees must have obligated 100 percent of such funds within 1 year of the date funds are made available to the recipient. Grantees must have expended at least 50 percent of such funds within two years of the date on which funds became available for obligation and 100 percent within three years of such date.

This audit was conducted as a component of our annual consolidated financial statement audit for fiscal year 2010. Our objectives were to review ARRA funding and determine whether HUD met ARRA’s requirements for obligations and recaptures, and that expenditures were on target to meet deadlines.

RESULTS OF AUDIT

Finding 1: HUD Obligated Nearly All ARRA Funds Within Time Limits but Must Return $1.6 Million in Deobligated Funds to the U.S. Treasury, and ARRA Expenditures Were on Track To Meet Deadlines

HUD grantees met ARRA's specific obligation deadlines for six of the eight ARRA programs reviewed, with nearly $1.6 million of the $13.61 billion remaining unobligated and ineligible for reobligation. While ARRA originally allowed for the reallocation of deobligated funds, Congress amended ARRA in the Pay It Back Act so that any ARRA funds recaptured or deobligated after, July 21, 2010, the enactment date of the Act, were to be returned to the U.S. Treasury. As a result of the amendment to ARRA, the $1.6 million is ineligible for reobligation and must be returned to the U.S. Treasury. ARRA also had expenditure deadlines which, as of July 2010, HUD was on target to meet.

HUD Obligated Its ARRA Funding Within the Required Time Limits

Our review of HUD's ARRA program funding found that its obligation deadlines had been met for all program activities. The following table shows the programs reviewed, the amount appropriated, obligation deadlines, and the obligation requirement status. The differences in appropriated amounts from the amounts obligated were due mostly to transfers/set-asides to ARRA-specified administrative offsets for administrative or information technology costs as shown in the table below.

ARRA program area	Appropriated	ARRA obligation deadline[2]	Met ARRA obligation requirement	As of July obligations	AOM,[3] WCF,[4] and personnel compensation & benefits	Difference
Community Development Fund	$3,000,000,000	9/30/2010[5] 2/16/2010[6]	Yes	$2,969,999,881	$30,000,000	($119*)
Lead Hazard Reduction	$100,000,000	9/30/2011	Yes	$99,500,000	$500,000	($0)
Homelessness Prevention Fund	$1,500,000,000	9/30/2011	Yes	$1,492,500,000	$7,500,000	($0)
HOME Investment Partnerships Program	$2,250,000,000	9/30/2011	Yes	$2,250,000,000	$0	($0)
Project-Based Rental Assistance	$2,000,000,000	9/30/2010	Yes	$2,000,000,000	$0	($0)
Public Housing Capital Fund	$4,000,000,000	3/19/2009-F 9/30/2009-C	Yes	$3,977,579,023	$22,420,997	($20*)
Green Retrofit Program	$250,000,000	9/30/2010	Yes	$133,165,177	$2,500,000	($114,334,823)
Native American Housing Block Grant	$510,000,000	3/19/2009-F[7] 9/30/2009-C	Yes	$506,076,442	$2,550,000	($1,373,558)

* Immaterial difference due to rounding
F – formula method, C – competitive method

In our analysis of ARRA obligation data, we found significant variances in two programs: the Green Retrofit Program and the Native American Housing Block Grant program.

The unobligated balance of Green Retrofit Program ARRA funds of more than $114.3 million as of July 31, 2010, was determined not to be an exception as the obligation deadline had not passed. ARRA required that the Green Retrofit Program funds be obligated by September 30, 2010. Our follow-up review found that as of September 30, 2010, the Green Retrofit Program had obligated all of its funds.

[2] Funds deobligated after July 21, 2010, are subject to the recapture requirements of the Pay It Back Act.
[3] Administration, operations, and management (ARRA-allowed program support)
[4] Working capital fund (ARRA information technology program support)
[5] Community Development Block Grant (CDBG)
[6] Neighborhood Stabilization Program 2 (NSP2)
[7] HUD obligation dates to program. The actual obligation date for grantees will vary, but ARRA requires obligation of 100 percent of funds within 1 year of the date funds are made available to the recipient.

The ARRA Native American Housing Block Grant had more than $1.37 million in unobligated funds as of July 31, 2010. In accordance with ARRA requirements, these funds must have been obligated by March 19, 2009. The unobligated balance was ARRA funds that had been deobligated during fiscal year 2010. However, as a result of the Pay It Back Act, $59,365 of the balance of the recaptured and deobligated funds was determined to be ineligible for reobligation because the funds were recaptured and deobligated after July 21, 2010. As of September 30, 2010, HUD had deobligated more than $1.65 million in Native American Housing Block Grant funds during the fiscal year.

After considering those offsets and deobligations, our review found that HUD met the obligation deadlines.

HUD Needs To Return $1.6 Million to the U.S. Treasury in Accordance With the Pay It Back Act

Our review of HUD's ARRA funding process found exceptions to the full obligation of ARRA appropriations in four program areas: Lead Hazard Reduction, HOME Investment Partnerships Program, Public Housing Capital Fund, and Native American Housing Block Grant. HUD was able to provide adequate documentation to justify and support the amounts and timing of the amounts obligated, deobligations, and subsequent reobligations for all programs. However, $59,365 in Native American Housing Block Grant ARRA funds and more than $1.5 million in Public Housing Capital Fund funds, for a total of nearly $1.6 million, must be returned to the U.S. Treasury in accordance with the Pay It Back Act.

Before the enactment of Title XIII, Pay It Back Act, of the Dodd-Frank Act on July 21, 2010, the requirements of ARRA contained provisions that allowed HUD to recapture and reallocate program ARRA funds. Specifically, the Lead Hazard Reduction program, Homelessness Prevention Fund, HOME Investment Partnerships Program, Public Housing Capital Fund program, and Native American Housing Block Grants contained recapture and/or reallocation provisions. The Pay It Back Act amended ARRA to require that funds rejected by the States be rescinded and deposited into the General Fund of the U.S. Treasury. Additionally, withdrawn or recaptured unobligated funds are to be returned to the U.S. Treasury by December 31, 2012. The return of the ARRA funds is for the sole purpose of deficit reduction.

In accordance with the Pay It Back Act, HUD must return recaptured or deobligated ARRA funds that were unobligated as of July 21, 2010. Therefore, the recapture and reallocation provisions of the eight programs reviewed were not applicable to the balance of unobligated funds after July 21, 2010. HUD's monitoring efforts and analysis of ARRA funds and the Office of Inspector General's (OIG) audit findings resulted in recaptured ARRA funds. Funds that were recaptured and not reallocated before the enactment of the Pay It Back Act were identified for return to the U.S. Treasury as indicated in the table below.

Fiscal Year 2010 ARRA program funds deobligation review		
ARRA program area	**Recapture or return**	**Deobligation date**
Native American Housing Block Grant -1	$38,484	7/28/2010
Native American Housing Block Grant -2	$20,881	9/17/2010
Native American Housing Block Grant Total	**$59,365**	
Public Housing Capital Fund-1	$972,748	8/13/2010
Public Housing Capital Fund-2	$419,430	8/13/2010
Public Housing Capital Fund-3	$114,872	7/26/2010
Public Housing Capital Fund-4	$33,016	8/18/2010
Public Housing Capital Fund Total	**$1,540,066**	

As a result, funds are to be returned for the sole purpose of deficit reduction and, therefore, are ineligible for reallocation to other ARRA programs. HUD indicated that it intended to return the funds at the end of the year. However, we recommend that HUD return the $1.6 million within 60 days from when the report is issued to ensure that the U.S. Department of the Treasury receives the funds promptly as required by the Pay It Back Act.

ARRA Programs Were on Target To Meet Expenditure Deadlines

We reviewed the ARRA expenditure rates as of July 31, 2010. Our review consisted of identifying the ARRA obligation dates for each program under review and the related expenditure requirements. Further, we reviewed the amount of obligations and expenditures as of July 31, 2010, to determine the percentage of funds that had been obligated and expended. Based upon our preliminary analysis, we had concerns regarding the expenditure rates for the Homelessness Prevention and Rapid Re-Housing Program; Community Development Fund, which includes CDBG and NSP; HOME Investment Partnerships Program, also known as TCAP; and Green Retrofit Program.

Specifically, our analysis of the Homelessness Prevention and Rapid Re-Housing Program found that as of July 31, 2010, approximately 11 months into the 24-month obligation period, grantees had expended only 24 percent of the obligated funds when they should have expended approximately 27 percent. HUD staff members indicated that they were monitoring the program's expenditure rate and were confident that the three percent gap could be made up and the program would meet its expenditure deadline.

We also reviewed the expenditure rates for CDBG and NSP. As of July 31, 2010, grantees should have expended approximately 21 percent of their funds. However, grantees had only expended 13 percent of their obligated funds. We met with the program office to discuss the ARRA requirements and results of our review. Specifically, we sought clarification for the expenditure requirements as the Act does not mention specific expenditure rates for CDBG. As of July 31, 2010, CDBG had an expenditure rate of 36 percent, and NSP had an expenditure rate of 0.85 percent. The expenditure rate for NSP was low in comparison to CDBG; however, the funds for this program were not obligated until February 2010. Additionally, the program office responded to our concerns and provided the status of funds report, which showed that the expenditure amounts had increased as of September 2010 for both CDBG and NSP. Additionally, program staff indicated that they were ahead on their projects.

For the HOME Investment Partnerships Program, our analysis found that as of July 31, 2010, grantees should have expended approximately 54 percent for the two year requirement and 48 percent for the three year requirement. However, grantees had only expended 32 percent of their obligated funds. Program staff stated that because the TCAP grantees did not sign grant agreements, for the most part, until July and August 2009, the expenditure rate was lower than HUD would like. However, program staff members stated that they were taking appropriate steps to increase the expenditures.

The Green Retrofit Program ARRA requirements state that grantees must expend the funds within two years from the time they receive the funds. Using the earliest owner/grantee reimbursement request date of October 26, 2009, we determined that as of July 31, 2010, grantees should have expended approximately 37.5 percent of their funds. However, grantees had only expended seven percent of their funds. Program staff members stated that the program was nearing its obligation deadline and were aware of the expenditure deadlines as well. HUD indicated that the program was moving forward and had implemented financial incentives[8] for grantees that complete the scope of work in a timely manner and within budget constraints.

[8] The Green Retrofit Program Multifamily Housing Plan provides the following *Owner Incentives* that are allowed under the Recovery Act: pre-development, energy efficiency, targeted job creation and incentive performance fee.

Based on our review and subsequent supporting documentation received on expenditure rates as of September 30, 2010, we determined that the Homelessness Prevention and Rapid Re-Housing Program, CDBG program, HOME Investment Partnerships Program, and Green Retrofit Program were reasonably on target for meeting the rates of expenditures according to ARRA. HUD program staff provided a series of reports which supported these statements and documented that HUD had established goals and targets and that the above programs were within an acceptable range.

ARRA expenditure analysis				
ARRA program area	**Appropriated**	**As of July 2010 expenditures**	**As of July 2010 expenditure percentage**	**Expenditure requirements (from date of obligation unless otherwise noted)**
Community Development Fund	$3,000,000,000	$371,425,060	NSP-0.85% CDBG-36%	NSP-50% within 2 years of 2/16/12, 100% within 3 years of 2/16/13 CDBG-100% by 9/30/12
Lead Hazard Reduction	$100,000,000	$24,614,271	25%	50% within 2 years of date, 100% within 3 years of date
Homelessness Prevention Fund	$1,500,000,000	$359,039,020	24%	60% within 2 years, 100% within 3 years of date
HOME Investment Partnerships Program	$2,250,000,000	$723,871,373	32%	75% within 2 years of enactment of ARRA, 100% within 3 years of enactment of ARRA
Project-Based Rental Assistance	$2,000,000,000	$1,975,932,721	98%	None
Public Housing Capital Fund	$4,000,000,000	$1,676,522,375	42%	60% within 2 years, 100% within 3 years of such date
Green Retrofit Program	$250,000,000	$9,752,420	7%	100% within 2 years from the date grantee received funds
Native American Housing Block Grant	$510,000,000	$249,348,433	49%	50% within 2 years, 100% within 3 years of date

Conclusion

Our review found that HUD complied with the ARRA obligation requirements.

While nearly all of HUD's ARRA programs were on track to meet their expenditure requirements, we requested documentation for three programs to ensure that they were on target for meeting their deadlines for expenditures as required by ARRA.

Additionally, we noted that nearly $1.6 million must be returned to the U.S. Treasury in accordance with the Pay It Back Act. Specifically, Native American Housing Block Grant ARRA funds of $59,365 and Public Housing Capital Fund funds of more than $1.5 million. HUD indicated that it intended to return the funds at the end of the year.

Recommendations

We recommend that the Office of the Chief Financial Officer

1A Within 60 days of the date this report is issued, return to the U.S. Treasury $1,599,432 in deobligated ARRA funds in accordance the provisions of the Pay It Back Act.

Finding 2: HUD's ARRA Funds Control Plans Had Weaknesses

HUD's ARRA funds control plans did not always include details to enable HUD staff to monitor, properly account for, and process ARRA funding and reimbursement requests. This weakness occurred because HUD did not ensure that adequate funds control plans existed for each program office that received ARRA funds. Without complete funds control plans, HUD cannot determine and affix responsibility should obligations or expenditures be incurred in violation of the Anti-Deficiency Act[9].

HUD Needs To Ensure Completeness and Accuracy of ARRA Funds Control Plans

In our report, 2011-FO 0003, issued on November 15, 2010, Additional Details To Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements, we reported as a significant deficiency that HUD needed to improve administrative controls over funds including ARRA programs. In that report, we found that ARRA funds control plans did not always include information such as funding codes, funding amounts, or the obligation and expenditure amounts.

Our review consisted of obtaining the funds control plans for the programs that received ARRA funding to determine (1) the funding amounts, (2) obligation and disbursement time limits for HUD and the grantees, (3) HUD systems used to account for and allow the authorized disbursement of ARRA funds, (4) provisions for the payment of administrative costs including appropriation codes, (5) point of obligation documentation, (6) payment requests, and (7) validation procedures. The ARRA funds control plans did not always include details to enable HUD staff to monitor, properly account for, and process ARRA funding and reimbursement requests. We also reviewed the funds control plan for the Green Retrofit loan program and found that the funds control plan did not identify the Program Accounting System[10] program code for U.S. Treasury borrowings and interest. Also, the funds control plan did not include the plan and procedures for obligating and disbursing funds related to U.S. Treasury interest payments.

Specifically, we reviewed 15 ARRA-related funds control plans and found that 14 did not include funding appropriation codes, funding amounts, obligation and expenditure time limit details, and administrative funding provisions. HUD

[9] U.S. Code, Title 31 Section 1518 - adverse personnel actions; Section 1519 - criminal penalty provides adverse personnel actions and criminal penalties for any officer or employee that violates the requirements of expenditures and obligations.

[10] Program Accounting System (PAS) provides fund accountability and an integrated subsidiary for the Department's grant, subsidy, and loan programs. PAS links to HUDCAPS for general ledger processing, Standard General Ledger (SGL) transaction processing, and for summarized accounting activity.

Handbook 1830.2, REV-5, states that all allotment holders shall be required to prepare a funds control plan describing the administrative control of funds allotted to them. Also, each allotment holder is ultimately responsible for the preparation, submission, and implementation of a funds control plan that provides for an effective administrative control of funds allotted to it. Further, funds control plans must contain detailed information for each program line item or other activity included in the allotment, broken down to the lowest level of any corresponding assignment of funds.

The process by which an agency ensures that its obligations and expenditures stay within authorized budget limits and otherwise comply with the Anti-Deficiency Act is referred to as "administrative funds control." The funds control plans for the ARRA programs did not describe the administrative control of funds allotted to the programs. Without complete funds control plans, the Chief Financial Officer cannot determine and affix responsibility in instances in which obligations or expenditures have been incurred in violation of the Anti-Deficiency Act. HUD program staff members indicated that there was a rush to have the funds control plans completed along with the front-end risk assessment, and, therefore, they may not have been as detailed as desired. However, they contended that the funds control plans referenced ARRA, which included all pertinent information.

Conclusion

ARRA funds control plans did not always include details to enable HUD staff to monitor, properly account for, and process ARRA funding and reimbursement requests. Specifically, the funds control plans did not always include information such as funding appropriation codes, funding amounts, and obligation and expenditure time limit details. Additionally, the funds control plans for the Green Retrofit loan program did not include the processes, procedures, and program code for obligations and disbursements made to the U.S. Treasury for interest payments.

Recommendations

In an earlier report, we recommended that HUD establish and implement procedures to ensure accuracy and completeness of ARRA funds control plans. We have no further recommendations.

SCOPE AND METHODOLOGY

ARRA provided for supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization for the fiscal year ending September 30, 2009. Each program area had a slightly different compliance timeframe, which we considered in planning the review. This review's intent was to determine compliance with obligation and expenditure requirements contained in ARRA as of July 31, 2010. In addition, we reviewed HUD's progress in its obligation and expenditure of funds as of July 31, 2010. Further, we reviewed the timing of funds recaptured to determine compliance with the return of deobligated funds to the U.S. Treasury under the Pay It Back Act. We also reviewed the most recent obligation and expenditure rates and performed a review of the Green Retrofit Program obligation data through the end of September 2010.

We obtained the funds control plans for the programs that received ARRA funding to determine (1) the funding amounts, (2) obligation/disbursement time limits for HUD and the grantees, (3) HUD systems used to account for and allow the authorized disbursement of ARRA funds, (4) provisions for the payment of administrative costs including appropriation codes, (5) point of obligation documentation, and (6) payment request and validation procedures.

We obtained the appropriated, obligated, unobligated, percent unobligated and disbursed amounts for the programs that received ARRA funding to determine whether HUD met legal and administrative requirements and obligated and expended ARRA funding according to ARRA requirements. We requested from the Office of the Chief Financial Officer all HUDCAPS[11] transaction-level data for incurred obligations for the review of eight major ARRA program appropriations (except Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA)) for the period covering March 1, 2009, through March 31, 2010, and all HUDCAPS transaction-level expenditure data (Standard General Ledger Account 6100) for all appropriations (except FHA and GNMA) for the period covering March 1, 2009, through March 31, 2010. Using the number of ARRA disbursements from March 1, 2009, to March 31, 2010, as a universe, we determined that there were a total of 85,245 detail disbursement transactions with a total amount of more than $3.56 billion disbursed. We used a 90 percent confidence level and randomly selected 10 sample items from eight major ARRA programs and 10 sample items from one catch-all program categorized as "other." All of the transactions that resulted under "other" were personnel- and compensation-related transactions. We obtained this information to determine whether HUD disbursed ARRA funding according to ARRA requirements. Additionally, we reviewed the supporting documentation to verify that disbursements were valid, timely, and for eligible activities as defined by ARRA requirements. We believe that our methodology for obtaining and reviewing the eight major ARRA program transactions provides an adequate basis for the conclusions reached in this report.

We obtained the most recent obligation date and the ARRA expenditure requirements for eight major ARRA programs under review to determine the percentage of funds that had been

[11] HUD's Central Accounting Program System

expended.   We relied upon the obligation and expenditure data as of July 31, 2010 obtained from HUDCAPS for our analysis.

We relied upon the information from the HUD system. We consider this information to be reliable as we reconcile the detail transaction level in HUDCAPS to the Hyperion[12] financial reporting. We obtained supporting documentation of recaptured funds as of July 31, 2010, to determine whether the funds should be returned to the U.S. Treasury in accordance with the Pay It Back Act enacted on July 21, 2010. Using the supporting documentation, we identified which of the eight major ARRA programs under review had funds recaptured after July 21, 2010.

We also interviewed HUD's staff from the Office of Strategic Planning and Management, Office of Community Planning Development, Ft. Worth Financial Accounting Center, Appropriations Law, and the Office of Affordable Housing and Preservation Programs.

We performed our audit work from May 2010 through July 2010 at the Agency's offices located at 451 7th Street SW, Washington, D.C. and 801 Cherry Street, Fort Worth, TX. The audit covered the period of March 31, 2010, through July 31, 2010, but was expanded when necessary to include other periods.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[12] HUD Consolidated Financial Statement System (A39), Hyperion

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Documentation of administrative controls implemented to monitor ARRA funds (finding 2).

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

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

- Administrative control documentation did not comply with requirements related to fully describing the controls designed and implemented.

APPENDIX

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1A	$1.6 M
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1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations. In this instance, implementation of the recommendation is necessary for compliance with ARRA requirements and the Pay It Back Act.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation	Auditee Comments

Comment 1

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

CHIEF FINANCIAL OFFICER

MEMORANDUM FOR: Thomas R. McEnanly, Director Financial Audits Division, GAF

FROM: Douglas A. Criscitello, Chief Financial Officer, F

SUBJECT: OIG's Draft Audit Report "HUD Can Improve Its Oversight of ARRA Obligation and Expenditure Requirements"

Thank you for the opportunity to respond to the subject draft audit report. The Office of the Chief Financial Officer generally agrees with Finding 1 of your report on *HUD's Oversight of the American Recovery and Reinvestment Act (ARRA) Obligation and Expenditure Requirements*, however, we offer comments below. We have determined that Finding 2 is a duplication of a finding contained in a previously issued Office of Inspector General audit report and request that this finding be removed from the draft. We appreciate your evaluation and conclusion that HUD has obligated nearly all ARRA funds within the required time limits and that nearly all of HUD's ARRA programs were on track to meet expenditure requirements.

Comment 1

HUD CFO's comment regarding recommendation 1A: "Within 60 days of the date this report is issued, return to the U.S. Treasury $1,599,432 in deobligated ARRA funds in accordance with the Pay It Back Act."

We are not aware of any provision in the Pay It Back Act (the Act) that specifies a timeframe for deobligated funds to be returned to the U.S. Treasury. Our understanding of the requirement for returning funds under the Act as stated in, Title XIII, Section 1306, is that unobligated funds as of December 31, 2012, are to be rescinded and returned to the General Fund of the U.S. Treasury for the purpose of deficit reduction. The Act does not state any additional requirement for the return of funds; however, in recognition of sound cash management practice, HUD has no reason to continue to hold these funds and, as mentioned in your draft audit report, had intended to return the funds by the end of the year, along with other ARRA rescissions from the current year.

Our office has requested authorization from OMB, via an appropriation request, to return these funds to the Treasury and plans to complete that process within 60 days of your final report. We request that this fact be noted in your final report.

Comment 2

HUD CFO's comment regarding finding 2: "Ensure that HUD program offices update their ARRA fund control plans to ensure accuracy and completeness of the information contained in the plans."

Finding 2 is a duplication of issues cited in Significant Deficiency 5: *HUD Needs to Improve Administrative Control of Funds* stated in Audit Report Number 2011-FO-0003 on HUD's

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	financial statements. Also, Recommendation 2A of the draft report duplicates Recommendation 5.b, of Audit Report Number 2011-FO-0003 which states, "*Establish and implement procedures to ensure accuracy and competeness of ARRA fund control plans.*" Our office previously submitted a corrective action plan for that recommendation. We are requesting that Finding 2 of the draft report be eliminated in its entirety
	We are also recommending three technical corrections, all of which are contained in the Attachment.
	We appreciate your ongoing support of our efforts to improve HUD's financial management processes. If you have any questions regarding our response, please contact Jerry Vaiana on extension 8106.
Comment 3	Attachment

OIG Evaluation of Auditee Comments

Comment 1 HUD concurred with our recommendation but requested that we note in our report that HUD plans to complete the process to return the funds to the U.S. Treasury within 60 days of the issuance of the final report. We agreed to modify the report to acknowledge that the funds will be returned within 60 days.

Comment 2 HUD generally concurred with our finding but requested that the finding be removed from this report because it is a duplicate finding from an audit report previously issued. OIG agreed to modify the report to acknowledge the previous recommendation and that no further recommendations will be made. However, OIG believes that the details of the Finding are necessary to ensure proper understanding of the conditions of the finding and its relation to the obligation and expenditure of ARRA funds.

Comment 3 HUD provided an Attachment with editorial suggestions for the audit report. OIG substantially agreed with nearly all the editorial comments and made the suggested changes.