



U.S. Department of Housing and Urban Development  
**Office of Inspector General, Region VI**  
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December 15, 2009

**MEMORANDUM NO:**  
**2010-FW-1801**

MEMORANDUM FOR: James E. Slater  
Director, Office of Community Planning and Development, 6FD

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

SUBJECT: The State of Arkansas Has the Capacity to Manage Recovery Act Funding

### **INTRODUCTION**

The State of Arkansas (State) is scheduled to receive more than \$15.67 million under the American Recovery and Reinvestment Act of 2009 (Recovery Act). As part of our organization's commitment to ensure the proper use of these funds, we reviewed the State's operations. The objective was to determine whether the State has the capacity to account for Recovery Act funding and the controls to ensure that its recipients<sup>1</sup> expend those funds for eligible program activities. Our review did not result in any adverse reportable conditions or recommendations.

### **METHODOLOGY AND SCOPE**

Under the State's grant agreement with HUD, the State accepts responsibility for ensuring that its recipients carry out program activities consistent with the Recovery Act. Therefore, our review focused on the capacity, policies, and procedures the State has in place to ensure that its grant recipients comply with Recovery Act requirements.

The review period covered 2009 activities administered during the 9-month period ending September 30, 2009, and policies and procedures in place at the time of the audit. The review work started on August 18, 2009, and ended on November 3, 2009. We gathered information from officials and staff at the Little Rock, AR, offices of the U. S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development, the Arkansas Economic Development Commission, and the Arkansas Department of Human Services.

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<sup>1</sup> The recipients are the cities, counties, and continuums of care lead agencies that enter into grant agreements with the State.

To accomplish the objective, we

- Obtained an understanding of Recovery Act legislation, relevant program guidance and criteria, and the State's grant agreements with HUD.
- Interviewed HUD and State management and staff regarding the State's operations for carrying out Federal grant programs.
- Assessed the adequacy of State policies and procedures for administering HUD Recovery Act funding.
- Reviewed the planned grant activities to ensure consistency with Recovery Act requirements.
- Reviewed the State's Community Development Block Grant (CDBG) financial and monitoring files to see how the State processed funding and monitored projects.<sup>2</sup> Although the State had not disbursed Recovery Act funds, it had disbursed funds for similar CDBG activities.<sup>3</sup> We traced one request for CDBG funds from the State's receipt of the request for payment through the electronic payment to the recipient. We also reviewed documents supporting the monitoring and procurement of the most recently closed State CDBG project, which totaled more than \$3 million.<sup>4</sup> While the two samples were not statistical, they exhibited the financial, procurement, and monitoring activities for recent State CDBG projects that the State will use to control similar Community Development Block Grant - Recovery (CDBG-R) activities.

### **BACKGROUND**

Congress enacted the Recovery Act to provide funds for States to help the homeless or those in danger of becoming homeless.<sup>5</sup> It included a \$1.5 billion appropriation for Homelessness Prevention and Rapid Re-Housing Program (HPRP) activities and a \$1 billion appropriation in community development funds to State and local governments to expedite carrying out eligible activities under the CDBG program. The Recovery Act required a stringent standard of accountability and transparency and short deadlines for obligating and expending funding. Therefore, Recovery Act recipients must have demonstrated the capacity to administer funding and provide timely and reliable program data.

On August 5, 2009, HUD authorized more than \$10 million in Recovery Act funding for the State<sup>6</sup> to carry out its HPRP. According to the State's HPRP grant agreement with HUD, it must

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<sup>2</sup> Eligible CDBG program activities include a wide variety of community and economic development activities such as neighborhood revitalization, economic development and the provision of improved community facilities and services.

<sup>3</sup> The State must comply with CDBG Federal regulations for the CDBG-R program under the Recovery Act.

<sup>4</sup> The project was the construction of a public water facility, which was similar to 5 of the 13 CDBG-R projects under the Recovery Act. The sample represented more than half of the \$5.1 million awarded to the State for the CDBG-R program.

<sup>5</sup> The Recovery Act became Public Law 111-5 on February 17, 2009. It makes supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization, for fiscal year ending September 30, 2009, and for other purposes.

<sup>6</sup> For the purpose of this report, we did not differentiate between the State and its individual departments that carry out the programs.

spend at least 60 percent of the funds within 2 years, and 100 percent by August 4, 2012. The purpose of HPRP is to provide rental assistance and housing relocation and stabilization services. The State indicated that it would use the funding to provide financial assistance and services to prevent eligible individuals and families from becoming homeless. It also planned to provide housing and stabilization with prompt efficiency to eligible homeless individuals and families. Lead agencies from each of Arkansas' 13 continuums of care planned to enter into grant agreements with the State to carry out the program activities.

On August 17, 2009, HUD authorized the State more than \$5 million to carry out the CDBG-R program. The Arkansas Economic Development Commission, which will administer the program, must spend the funds no later than September 30, 2012. The Recovery Act requires that the State use its CDBG-R program funds to retain and create jobs, provide economic benefits, and promptly carry out infrastructure improvements. By signing the CDBG-R grant agreement with HUD, the State agreed to comply with Federal regulations. The regulations require the State to develop viable communities by providing decent housing and a suitable living environment. The State aimed to accomplish this by entering into grant agreements with 10 cities and 3 counties to carry out construction projects that will improve economic opportunities, principally for persons of low and moderate income.

### **RESULTS OF REVIEW**

Based upon the limited review, the State has the capacity and controls to (1) properly account for Recovery Act funding and (2) ensure that its recipients expend the funds on eligible program activities. HUD has not had significant problems with the State regarding the administration of its HUD grants. For fiscal year 2009, the State's community planning and development programs had an average rating of low risk. HUD based its rating of the program area on the State's past performance in carrying out all community planning and development programs that did not include any Recovery Act programs. However, HUD rated the State's CDBG program at the lower end of high risk, not because of performance, but mainly because the State received a large amount of CDBG funds in 2009. It rated all other community planning and development programs as low risk. In addition, State officials' preliminary accomplishments demonstrated an awareness of Recovery Act requirements and a good working relationship with local HUD officials.

#### ***The State appears to have the capacity and controls necessary to complete HPRP***

The State has sufficient controls to fulfill its obligations under its HPRP agreement with HUD. State officials have taken steps to ensure that it completes HPRP as required by HUD regulations. For example, the State established an internal audit group to carry out oversight consistent with prepared monitoring policies and procedures,<sup>7</sup> and it did hire a grant coordinator to oversee the program.<sup>8</sup>

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<sup>7</sup> As of September 21, 2009, internal auditors had completed initial on-site reviews at 3 of 11 lead agencies.

<sup>8</sup> According to the State's response to this memorandum, it has scheduled the coordinator to begin work on December 14, 2009.

The State is working with recipients to decrease the risk to HPRP. Many recipients that will manage the program activities will receive funds that greatly exceed the funds of prior Federal grants completed. One of the lead agencies had agreed to oversee more than \$541,000 for five counties, when it had previously managed funds for only two counties. Other agencies managed programs that received no more than \$15,000 in Federal funds per year. Now, they could receive up to \$285,000 per year for 3 years under HPRP. As a result, there is a high risk of not completing the program as planned. Acknowledging this risk, the State is reducing the risk by ensuring that the recipients have adequate information, training, and resources to carry out the program activities. For instance, the State provided information to its recipients on administrating the grant programs and held training sessions in August and September of 2009, which HUD followed with further training in October of 2009.

In addition, the State's office of quality assurance had policies and procedures for monitoring the grant recipients. During calendar years 2010 and 2011, it planned to spend 1,200 hours each year to monitor the agencies running the grant programs. The monitoring plan included reviewing agencies for effective cash management, allowable grant activities, eligible participants, Davis-Bacon Act wage rate compliance, property and equipment controls, eligible procurements, accurate reporting, and subrecipient monitoring.

***The State has the capacity and controls necessary to complete the CDBG-R program***

The State has demonstrated sufficient capacity and internal controls to complete the CDBG-R activities under its grant agreement. Its CDBG-R activities will be similar to CDBG activities completed in the recent past. As a result, the State will use the same sound controls it has for financial and procurement activities. The monitoring policies and procedures in place provide (1) assurance that recipients comply with the executed grant agreements and governing requirements in carrying out the projects and (2) a mode to resolve problem issues. From information provided, the State has enough staff to oversee the planned CDBG-R activities of the 13 cities and counties that will receive the grant funds and carry out the projects.

**CONCLUSION**

Based on our review, the State has the capacity and management controls to account for Recovery Act funding and ensure that its recipients spend the funds for eligible program activities within the allotted time. Under the Recovery Act, HUD awarded the State more than \$15.67 million for the HPRP and CDBG-R programs that recipients must spend within 3 years. At the time of the review, the State had not disbursed funds. However, it had internal controls in place. It was working towards hiring new staff as needed and training its recipients so that they know their responsibilities for carrying out the programs. We encourage State officials to continue to work with the grant recipients and HUD to ensure that recipients carry out program activities as required. Our review did not result in any reportable conditions or controllable recommendations.

Should you or your staff have questions, please contact me at 817-978-9309 or William W. Nixon, Assistant Regional Inspector General for Audit, at 817-978-9318.

## Appendix A

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### Ref to OIG Evaluation

#### Auditee Comments



Mike Beebe  
GOVERNOR

Maria Luisa M. Haley  
EXECUTIVE DIRECTOR

December 9, 2009

William R, Nixon  
Assistant Regional Inspector General for Audit  
US Department of Housing and Urban Development  
Office of Inspector General, Region VI  
819 Taylor Street, Suite 13A09  
Fort Worth, Texas 76102

Dear Mr. Nixon:

We have received the report of the Office of the Inspector General regarding the review of the Arkansas CDBG-R and HPRP programs funded under the American Recovery and Reinvestment Act (ARRA). This report was prepared following a review visit by [REDACTED] and [REDACTED], Senior Auditors with the Region VI Office of the Department of Housing and Urban Development (HUD).

The State of Arkansas concurs with the review opinion that the state has adequate capacity to manage both the HPRP program and the CDBG-R program.

#### **Comment 1**

The State would also like to extend its appreciation to the Office of the Inspector General for the courteous and professional manner in which the review was conducted. [REDACTED] and [REDACTED] were both knowledgeable and punctual in their audit. While they did conduct a complete and thorough audit of the state programs, their questions and suggestions appeared to be offered in the spirit of helping the state officials to understand the requirements of ARRA under the HUD programs.

#### **Comment 2**

If you require any further information as response from the State of Arkansas regarding this review, please feel free to contact me.

Sincerely,

  
Basil Julian  
Grants Division Director

cc: Maria Luisa M. Haley, AEDC  
Mike Gaines, AEDC  
Thomas Green, DHS  
James Slater, HUD  
[REDACTED]



**Division of County Operations**

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December 8, 2009

Mr. Gerald R. Kirkland, Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General, Region VI  
819 Taylor Street, Suite 13A09  
Fort Worth, TX 76102

RE: MEMORANDUM NO: 2010-FW-1801

Dear Mr. Kirkland:

We thank you for the draft audit memorandum containing the results of the review for the State of Arkansas. We are pleased with the results confirming the State has the capacity and controls necessary to manage Recovery Act funds and to complete the Homelessness Prevention and Rapid Re-housing Program. We are also pleased that there were no adverse reportable conditions or recommendations. We concur with the review.

As part of our written comments regarding the review of HPRP, we want to update your office on two items that took place after the conclusion of the review:

**Comment 3**

1) An additional training was provided to HPRP grant recipients in October 2009, by HUD, during the statewide Homeless Conference. The purpose of the training was to further clarify the grant recipients' responsibilities for carrying out the program and to provide technical assistance.

**Comment 4**

2) An HPRP Grants Coordinator has been selected. The new staff person is scheduled to begin work on Monday, December 14, 2009, in the Office of Community Services.

Again, we thank you and your staff for the positive review, as well as the follow-up exit conference call. We are continuing to work with HPRP grant recipients and HUD on the implementation of HPRP and look forward to continued success.

If you have any questions, please advise.

Sincerely,

Thomas E. Green, Assistant Director  
Office of Community Services

cc: William Nixon, Assistant Regional Inspector General  
[REDACTED], Senior Auditor

### **OIG Evaluation of Auditee Comments**

- Comment 1** We appreciate the hospitality offered during the review.
- Comment 2** The review was limited to the stated objective and programs and should not be considered a "complete and thorough audit of the state programs."
- Comment 3** We commend the State for completing its planned training events that provide its grant recipients with the information needed to carry out the HPRP programs as required. We have revised the memorandum accordingly.
- Comment 4** We applaud the State for hiring a grant administrator to oversee the HPRP program. We have revised the memorandum accordingly.