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TO: Theresa M. Porter, Director, Office of Community Planning and Development,
Kansas City, KS, 7AD

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: HUD's Region VII Office of Community Planning and Development Complied
With HUD's Monitoring Requirements for Recovery Act Recipients

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Region VII Office of Community Planning and Development (CPD) based on the American Recovery and Reinvestment Act of 2009 (Recovery Act) funding levels. The Region VII CPD office is responsible for monitoring more than \$17.6 million in Recovery Act Community Development Block Grants (CDBG-R) and more than \$28.2 million in Recovery Act Homelessness Prevention and Rapid Re-Housing Program grants. Our objective was to determine whether HUD's Region VII CPD office complied with HUD's monitoring requirements for Recovery Act recipients.

What We Found

HUD's Region VII CPD office complied with HUD's monitoring requirements for Recovery Act recipients. The regional CPD office appropriately established and implemented a risk assessment process to target Recovery Act grantees for review, and it appropriately monitored grantees.

What We Recommend

This report contains no formal recommendations, and no further action is necessary.

Auditee's Response

HUD's Region VII CPD office chose not to have an exit conference or to provide formal written comments in response to this report.

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BACKGROUND AND OBJECTIVE

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). U.S. Department of Housing and Urban Development's (HUD) Recovery Act funds support three themes that align with the broader goals of the Recovery Act: (1) promoting energy efficiency and creating green jobs, (2) unlocking the credit markets and supporting shovel-ready projects, and (3) mitigating the effects of the economic crisis and preventing community decline. HUD's overriding objective in support of these goals is the creation and preservation of jobs.

The Recovery Act includes a \$1 billion appropriation for Community Development Block Grants (CDBG-R) to be used to assist States, local governments, and insular areas in funding a wide range of community development activities. The expected benefits of CDBG-R are to stabilize property values and prevent neighborhood blight. In addition, the Recovery Act established a new program to provide homelessness prevention assistance for households who would otherwise become homeless and rapid rehousing assistance for persons who are homeless. The Recovery Act appropriated \$1.5 billion for the Homelessness Prevention and Rapid Re-Housing Program (HPRP). The overall goal of HPRP is for participants to achieve housing stability.

Each Office of Community Development (CPD) field office is responsible for developing monitoring strategies and an office work plan encompassing CPD grantees and programs to be monitored during the fiscal year based on a risk assessment. Headquarters establishes the completion dates for the risk analysis and work plan each fiscal year. The purpose of a monitoring strategy is to define the scope and focus the monitoring efforts, including establishing a framework for determining the appropriate level of monitoring for CPD grantees consistent within available resources. The work plan documents the field office decisions regarding where to apply staff and travel resources for monitoring, training and technical assistance.

The Region VII CPD office was responsible for monitoring 17 CDBG-R grant recipients that received about \$17.5 million in CDBG-R grants, which is approximately 1.76 percent of the total amount appropriated, and 8 HPRP grant recipients that received about \$28.2 million in HPRP grants, which is approximately 1.88 percent of the total amount appropriated. All of the HPRP grant recipients also received CDBG-R funds.

Our objective was to determine whether HUD's Region VII CPD office complied with HUD's monitoring requirements for Recovery Act recipients.

RESULTS OF AUDIT

HUD's Region VII CPD Office Complied With HUD's Monitoring Requirements for Recovery Act Recipients

The Regional CPD Office Complied With HUD's Monitoring Requirements

HUD's Region VII CPD office complied with HUD's monitoring requirements for entities that received Recovery Act funding. HUD required each grantee to submit a substantial amendment to their action plans and weekly activity reports to the regional CPD office. HUD also required each regional CPD office to establish and implement a risk assessment process to target Recovery Act grantees for review and to monitor grantees in compliance with Recovery Act requirements.

HUD required that each program participant's past performance be analyzed by the regional CPD office and compared against the full spectrum of formula and competitive program participants and programs. This method ranked program participants in descending order, from highest to lowest risk. Three categories were used: high, medium, and low risk based on the risk score. HUD required all monitoring to be based on the risk analysis process. It also required the regional CPD office to plan its annual monitoring efforts based on the risk assessment, and it required all high-risk grantees to be monitored in depth.

The Region VII CPD office reviewed and approved the substantial amendments for all 17 of its Recovery Act grant recipients. In addition, the regional CPD office reviewed the weekly activity reports from each grantee and compared the information from each to data entered into HUD's Integrated Disbursement and Information System.

The regional CPD office also correctly implemented HUD's risk assessment process and assessed a risk score to each of its grantees. The regional office then planned its monitoring efforts based on the risk score, which included indepth monitoring for the grantees it determined to be high risk. At the time of our review, the regional office was performing its first indepth monitoring of the entity that received the highest risk score. Regional CPD staff members told us that their ongoing monitoring process did not include approval of Recovery Act expenditures during the grant cycle and that the indepth monitoring was generally conducted after the money was spent.

Recovery Act Grantees Had Adequate Documentation

We conducted our own limited monitoring of a sample of the region's Recovery Act grantees. We conducted the testing in this manner because it would tell us whether the grantees adequately documented draws on the Recovery Act grants and whether the regional CPD office's plan of monitoring the grantees after the grant funds had been expended was effective.

We performed this testing at three grantees that had been assessed a high risk score. All three locations had adequate supporting documentation for the CDBG-R and HPRP grant draws. The following table represents the value of the grant transactions tested and the total dollars drawn on the Recovery Act grants as of February 17, 2011, for the CDBG-R grant and as of March 1, 2011, for the HPRP grant for the testing sites.

Grant number	CDBG-R expended amount	HPRP expended amount
B-09-MY-20-0001	\$ 134,791	\$ 526,393
B-09-MY-29-0003	1,150,903	2,332,148
B-09-MY-29-0004	305,384	494,015
Total	\$ 1,591,078	\$ 3,352,556

Conclusion

HUD's Region VII CPD office had established and implemented a risk assessment process to target Recovery Act grantees for review, and it monitored grantees in compliance with HUD's Recovery Act monitoring requirements. Although the monitoring was generally conducted after the grant funds had been expended, our limited monitoring of Recovery Act grantees during the audit did not reveal material deficiencies.

Recommendations

There is no formal recommendation, and no further action is necessary.

SCOPE AND METHODOLOGY

Our survey generally covered the period February 1, 2009, through January 31, 2011. We performed onsite work from January through May 2011 at the Region VII CPD office at 400 State Avenue, Kansas City, KS. We also performed limited onsite monitoring for three Recovery Act grantees during the same period.

To accomplish the audit objectives, we

- Reviewed regulations pertaining to the Recovery Act, Office of Management and Budget guidance, CPD notices concerning the CDBG-R and HPRP programs, headquarters CPD guidance regarding risk assessments and monitoring, and local CPD guidance regarding risk assessments and monitoring.
- Conducted interviews with the Region VII CPD Director and staff.
- Reviewed a listing of the grantees monitored by the Region VII field office and the funding received for CDBG-R and HPRP grants.
- Reviewed the risk analysis prepared by the Region VII field office.
- Reviewed a listing of voucher draws from HUD's Integrated Disbursement and Information System for CDBG-R and HPRP funds for grantees monitored by the Region VII field office.
- Performed a limited monitoring review of three grant recipients monitored by the Region VII field office for adequate documentation to support voucher expenditures made by the grantees and subgrantees.
- Conducted interviews of grant recipients.

We selected a sample of grantees for limited monitoring based on CPD's risk assessment for Region VII. We conducted testing at the three highest risk grantees in the region, based on the combined CDBG-R and HPRP risk scores assigned by Region VII CPD staff, excluding the one grantee that had already been monitored by HUD. We reviewed the grantee's documentation to determine whether the grant draws were generally supported with copies of invoices, payroll journals, timesheets, paycheck stubs, HPRP client information, and other appropriate documentation to support the expenditures by the grantees and subgrantees. We did not review the supporting documentation to determine eligibility, nor did we check the supporting documentation for mathematical errors. We verified that the documentation generally supported the amount of the grant draws.

We relied on computerized data contained in HUD's Integrated Disbursement and Information System. We assessed the reliability of the data, performed sufficient tests of the data, and found the data adequate to meet our audit objectives.

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 objective.

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 objective:

- Controls to ensure that the Region VII CPD office implemented a risk assessment process to target Recovery Act grantees for review
- Controls to ensure that the Region VII CPD office monitored grantees in compliance with Recovery Act requirements

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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government audit standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of Region VII CPD's internal control.