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MEMORANDUM FOR: Robert L. Paquin, Director of Community Planning and Development, 1AD

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FROM: John A. Dvorak, Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: The State of Vermont's Agency of Commerce and Community Development Had Sufficient Capacity To Effectively Administer Its Neighborhood Stabilization Program

### **INTRODUCTION**

In accordance with our goal to review and ensure the proper administration of Neighborhood Stabilization Program (NSP) funds provided under the Housing and Economic Recovery Act of 2008 (HERA) and/or the American Recovery and Reinvestment Act of 2009 (ARRA), we conducted a capacity review of the operations of the State of Vermont's (State) Agency of Commerce and Community Development (Agency), which has responsibility for administering the State's NSP. Our objective was to determine whether the Agency had the necessary capacity to effectively and efficiently administer the NSP funds provided through HERA.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Also, please furnish us copies of any correspondence or directives issued because of the review. If you or your staff has any questions, please contact Kevin Smullen, Assistant Regional Inspector General for Audit, at 617-994-8380.

### **METHODOLOGY AND SCOPE**

Our review of the Agency was limited to gaining an understanding of internal controls over the administration of NSP funds and related activities. To meet our objective, we reviewed HERA documentation and the approved funding agreement between the State and the Agency. We also interviewed the Agency's management and staff members and reviewed the Agency's

documentation such as policies and procedures, organizational charts, cost allocations, procurement records, and job descriptions to obtain an understanding of the Agency’s internal controls. Our review of this documentation was limited to our stated objective and should not be considered a detailed analysis of all of the Agency’s internal controls or operations, but only those controls or operations that would affect the administration of the NSP funding provided under HERA.

We reviewed Agency files on specific and municipal program activities to determine whether the Agency followed its procurement procedures regarding the ranking and scoring of NSP applications from the NSP requests for proposals issued by the Agency. For housing acquisition and rehabilitation, we reviewed program files for properties purchased through the Vermont Housing Finance Agency with NSP funds as of September 30, 2009. We also conducted site inspections at four properties that were starting renovation work.

We obtained assistance from the HUD Office of Community Planning and Development in Manchester, NH, to determine whether the Agency had the capacity to administer its NSP funds. In addition, we inspected three Homeownership Acquisition and Rehabilitation Program properties that were recently purchased using NSP funds to confirm the existence of the properties. We performed our audit fieldwork from September through October 2009 at the Agency’s office in Montpelier, VT. For this report, our work was not conducted in accordance with generally accepted government auditing standards; however, this fact had no effect on the significance of the conditions identified in this report.

## **BACKGROUND**

The Vermont NSP is administered by the Agency’s Department of Housing and Community Affairs. The Agency received \$19.6 million in NSP funds from HUD to help address the housing foreclosure crisis and to return foreclosed, blighted, and abandoned properties to residential use through their acquisition and redevelopment. The State signed the NSP grant agreement from HUD on March 31, 2009. The target date for meeting the 18-month obligation deadline under the program is September 30, 2010, and the target date for meeting the 48-month expenditure deadline is March 31, 2013. The Agency did not receive authorization from the Vermont Legislature to accept the NSP grant until June 3, 2009.

The following is a list of all 2009 Federal grant programs that the Agency plans to administer:

Program	Federal funding
Neighborhood Stabilization Fund (NSP-1)	\$19,600,000
Community Development Block Grant (CDBG)	\$7,400,000
Community Development Block Grant - Recovery (CDBG-ARRA)	\$ 1,900,000
<b>Total</b>	<b>\$28,900,000</b>

Federal energy efficiency and Economic Development Initiative grants were being administered by the Vermont Housing Conservation Board, and Homelessness Prevention and Rapid Re-Housing Program funds were applied for through the Vermont Agency of Human Services. The Agency had not submitted an application for NSP-2 funding under ARRA.

The Vermont NSP plan provides for the use of NSP funds through:

1. The Homeownership Acquisition and Rehabilitation Program for the purchase and rehabilitation of single-family and up to four-unit residential properties in targeted areas. The Agency entered into a signed agreement, dated June 15, 2009, with the Vermont Housing Finance Agency not to exceed \$7 million.
2. The Municipal Program for comprehensive foreclosure mitigation activities in the municipalities of the City of Barre and the City of Burlington, not to exceed \$3.4 million.
3. The Project-Specific Program component to address residential structures of more than four units in those areas with a census tract rating of 3.5 percent and greater for the projected 18-month underlying foreclosure problem, not to exceed \$8.6 million.

The Agency proposed to use the NSP funds for the full range of allowable activities such as (1) establishing financing mechanisms for the purchase and redevelopment of foreclosed-upon homes and residential properties, (2) purchasing and rehabilitating homes and residential properties that are abandoned or foreclosed, (3) establishing a land bank for foreclosed-upon homes, (4) demolishing blighted structures, and/or (5) redeveloping demolished buildings or vacant properties.

## **RESULTS OF REVIEW**

The Agency should be able to meet Federal requirements for administering the NSP funds under HERA. Specifically, the Agency has the capacity to ensure that NSP funds are properly administered. Also, the Agency's management, financial, and procurement controls are generally adequate to ensure that (1) proper NSP expenditures will occur within the timeframes for using these funds, (2) NSP eligibility and program outcome goals will be met, and (3) NSP transparency requirements will be complied with.

The following areas were reviewed in making our determination of the Agency's ability to administer the NSP funds:

**Capacity:** The Agency has the capacity to effectively and efficiently administer its NSP. This assessment is based on the Agency's ability to fully comply with the NSP regulations and associated CDBG regulations and the State's plan for administering NSP. The Agency has extensive staff experience in successfully managing the State's CDBG program since 1983 and continues to improve its management controls to ensure the success of NSP.

**Transparency:** The Agency has taken the required actions to ensure that information is available to the public. The State amended its CDBG program for the use of funds under NSP.

The Agency's Department of Housing and Community Affairs published the substantial amendment and issued requests for proposals for NSP-eligible acquisition and rehabilitation projects in eight major newspapers across the State. .

**Clear and measurable objectives:** The Agency has mechanisms in place to measure and track NSP outputs and outcomes. Our review disclosed that the Agency uses the Disaster Recovery Grant Reporting (DRGR) system to enter the NSP action plan and quarterly reports. The Agency's director of grants management is responsible for submitting quarterly reports that summarize obligations, expenditures, drawdowns, and accomplishments for all of its activities. As a result of documentation reviewed and interviews with Agency personnel, we determined that the Agency can satisfactorily ensure that NSP eligibility and program outcome goals will be met.

**Accountability and reporting:** The Agency has sufficient systems in place to control the obligation and use of its NSP funds. The Agency is reconciling its budget with HUD's DRGR and its internal accounting system. Receipts and expenditures are identified separately for each program year so that grant funds will not be over expended in any period. Project identification codes have been established for expenditures in all programs set up in the State's VISION accounting system to allow for the identification of total awards as expenditures accumulate across several fiscal years. Reconciliations are performed on a monthly basis for all financial transactions in the VISION system, Oracle PeopleSoft software system, and DRGR. The Agency is correctly using the HUD DRGR system to track budgeted NSP funds and project expenditures. It has sufficient capability to effectively monitor, control, and report the financial transactions related to NSP.

## CONCLUSION

The Agency has the capacity and adequate controls to administer its award of NSP funding in accordance with HERA requirements. Therefore, HUD can generally be assured that the Agency will accurately account for its use of NSP funding under HERA for only eligible program activities.

## RECOMMENDATIONS

Based on the results of this audit, this memorandum report contains no recommendations.