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General Deputy Assistant Secretary for Community Planning and Development, D

//signed//
FROM: Gerald R. Kirkland
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SUBJECT: HUD's Disaster Recovery Grant Reporting System Can Collect the Basic Information Needed to Monitor the Neighborhood Stabilization Program[1]

HIGHLIGHTS

What We Audited and Why

As part of the our plan to review the Neighborhood Stabilization Program (program), we reviewed whether the U. S. Department of Housing and Urban Development's (HUD) Disaster Recovery Grant Reporting system (DRGR) can collect program data at the level of detail necessary to adequately monitor the program. We limited the review to the program established by the Housing and Economic Recovery Act of 2008 (HERA). However, HUD will also use DRGR to administer the program's expansion pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA).

What We Found

As designed, DRGR can collect the basic information that HUD needs to monitor the program. HUD was in the process of developing monitoring guidance for field staff that separately addresses on-site monitoring and review of grantees' DRGR action plans and quarterly performance reports. HUD needs to ensure its

[1] We amended this report to clarify that HUD will use DRGR to administer the expanded program and its additional funding pursuant to ARRA.

monitoring guidance includes critically reviewing grantee reports to identify potential noncompliance issues, including unreported program income.

HUD has an opportunity to do more with data collection and analysis, particularly with the transparency and reporting requirements attached to additional program funds provided under ARRA. However, HUD should not substitute data collection for aggressive monitoring.

What We Recommend

We recommend that the General Deputy Assistant Secretary for Community Planning and Development (1) continue to develop and implement detailed on-site monitoring guidance that incorporates information in DRGR, (2) continue to develop and implement detailed guidance requiring field staff to aggressively review grantee quarterly performance reports and drawdown vouchers, (3) require grantees to include the addresses of properties assisted under the program in quarterly performance reports, and (4) consider adding data fields to DRGR that require grantees to report compliance-related information.

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 issued a draft report to HUD on May 27, 2009, and held an exit conference on June 8, 2009. HUD generally agreed with the content of the report and the recommendations and declined to provide written comments on the draft report.

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BACKGROUND AND OBJECTIVES

The Housing and Economic Recovery Act of 2008 (HERA) appropriated $3.92 billion in fiscal year 2008 funding for emergency assistance for the redevelopment of abandoned and foreclosed homes.[2] The purpose of the program was to provide assistance to states and units of general local government for the redevelopment of abandoned and foreclosed-upon homes and residential properties.

Grant recipients were required to target areas with the greatest need by engaging in one or more of the following eligible uses: (1) financing mechanisms for purchase and redevelopment of foreclosed-upon homes, (2) purchase and rehabilitation of homes and residential properties that have been abandoned or foreclosed upon, (3) establishment of land banks for homes that have been foreclosed upon, (4) demolition of blighted structures, and (5) redevelopment of demolished or vacant properties. Recipients were required to obligate the funds within 18 months after receipt and use them within four years.

All funds must benefit families whose incomes do not exceed 120 percent of area median income. Further, not less than 25 percent of the funds are to be used for the purchase and redevelopment of homes that will be used to house families whose incomes do not exceed 50 percent of area median income. The U.S. Department of Housing and Urban Development (HUD) must ensure the properties remain affordable to families earning less than 120 percent of area median income for the longest feasible term.

HUD issued a *Federal Register* notice on October 6, 2008,[3] in which it advised the public of its allocation formula and amounts, the list of grantees, alternative requirements, and the waivers of regulations it granted related to the program. It referred to the program as the Neighborhood Stabilization Program (program). In the notice, HUD established the basic program rules and required grantees to submit action plan substantial amendments to apply for and receive the funds. Each grantee was required to complete and submit the substantial amendment by December 1, 2008. Grantees could submit the amendments to HUD on paper or electronically using the Disaster Recovery Grant Reporting system (DRGR). Grantees that chose to submit their amendments on paper were required to set up their action plans in DRGR before the deadline for the first required performance report after receiving a grant.

HUD stated it used DRGR for the program because no other existing application and reporting system was sufficiently flexible to deal with the alternative requirements. The emergency nature of this legislation and corresponding statutory timeframes did not give HUD sufficient time to develop a new system or modify an existing system to perfectly fit the program.

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[2] Public Law 110-289, Division B, Title III.

[3] Docket No. FR–5255–N–01.

The American Recovery and Reinvestment Act of 2009 (ARRA) revised some of the program rules and appropriated an additional $2 billion for the program, to be competitively awarded.[4] HUD plans to use DRGR to administer the program's expansion pursuant to ARRA.

Our audit objective was to determine whether the DRGR system collects program data at the level of detail necessary for HUD staff to effectively monitor program funds, grantee activities and assets, program income, and program outcomes. The audit addressed the system's capability to administer the program established under HERA.

[4] Public Law 111-005

RESULTS OF AUDIT

Finding: The DRGR System Can Collect the Basic Information That HUD Needs to Monitor the Program

Coupled with detailed guidance and vigorous monitoring, DRGR can collect sufficient information to enable HUD to effectively monitor the program. However, because of the legislative requirement to quickly implement the program, HUD has not developed final guidance requiring staff to use the information in the system to monitor the program. HUD needs to establish and implement guidance that will allow it to use the data in DRGR to augment its monitoring activities.

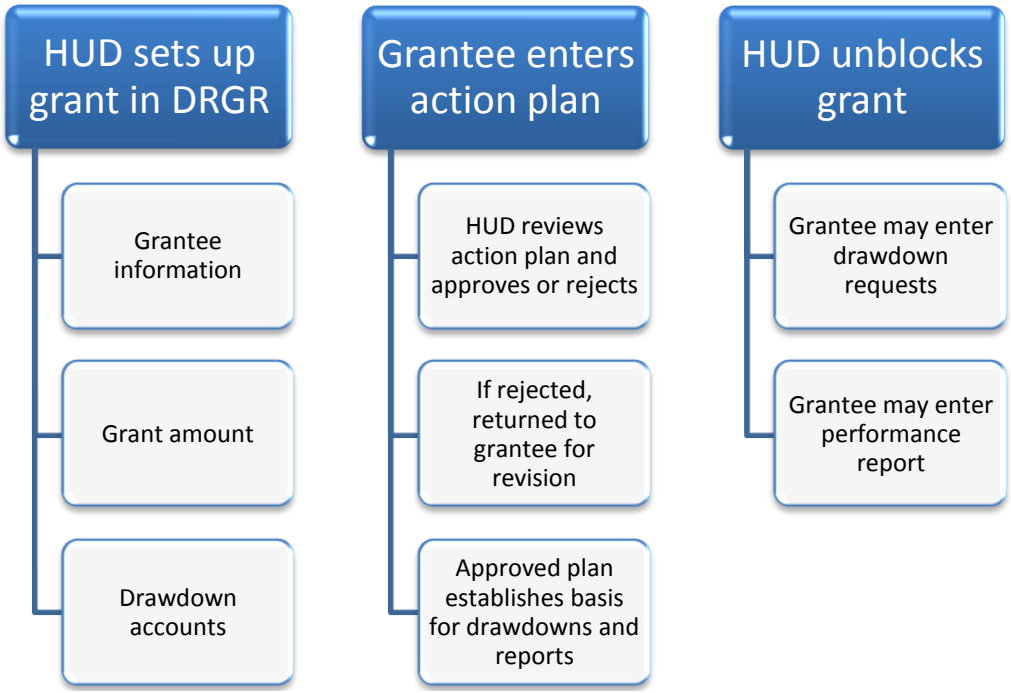
HUD Can Use DRGR to Control Program Funds and Monitor Grantee Activities

Although DRGR was designed to accommodate disaster recovery grants, HUD considered it flexible enough to use for the program grants. According to staff, HUD designed the program rules specifically so that the program would work in DRGR. HUD revised DRGR to include program-specific national objectives and activities.

HUD entered the grant information into DRGR and required grantees to set up their action plans in the system. Once HUD approves the action plan, it will unlock the grants to allow grantees to submit draw down requests or create quarterly performance reports.

The action plans contain descriptions of grantee recovery needs and plans. Grantees organized their action plans by eligible activity, including budgets and performance measures for each activity. HUD closely reviewed grantee action plans to ensure they were properly organized by activity and assisted grantees with the process when necessary. Once HUD approves the action plan in DRGR, the action plan establishes the basis for grantee drawdown requests and quarterly performance reports. Figure 1 depicts this process.

Figure 1: Grant setup process



Grantee quarterly performance reports will include the activities and budget information from the grantee's approved action plan and expenditures reflected in the drawdown module. Performance reports also include space for grantees to provide narratives and report on activity performance measures.

Grantees report program income[5] in performance reports and expense it in the drawdown module. They draw grant funds by activity in the drawdown module. The drawdown module prevents grantees from drawing more funds than budgeted for a particular activity in the approved action plan and from drawing more grant funds than the grant total. Figure 2 demonstrates the program income cycle.

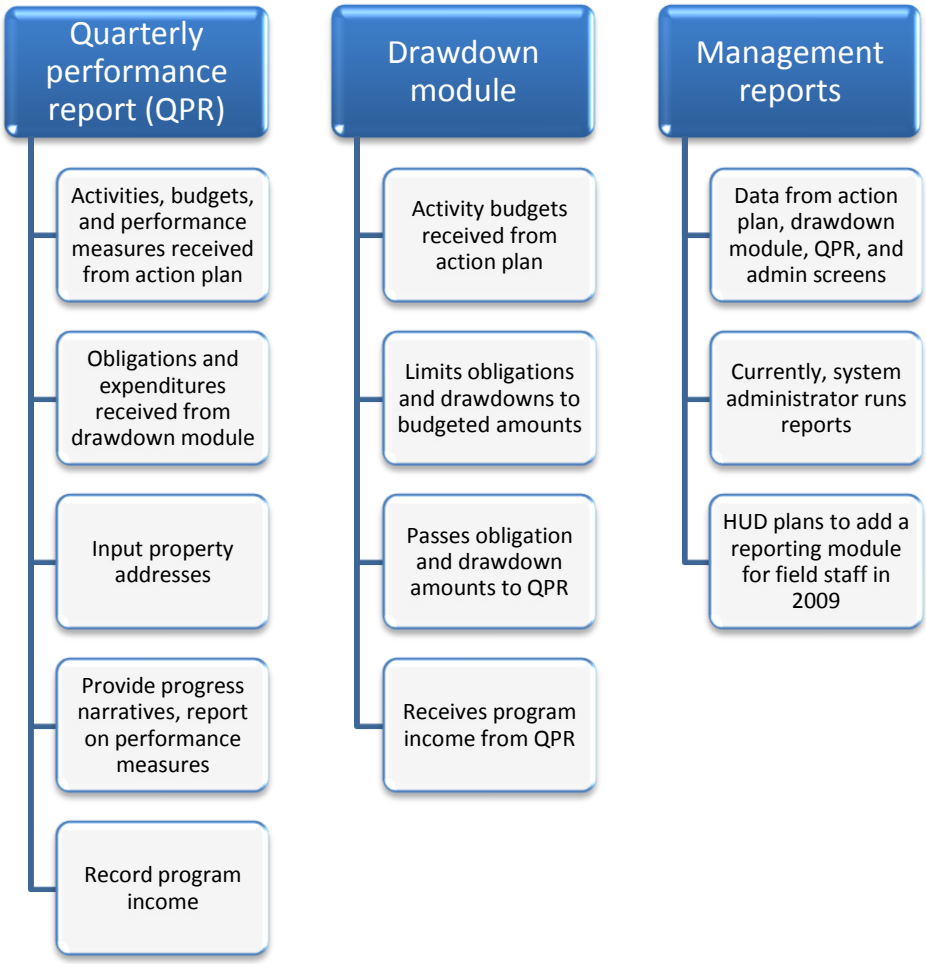
Figure 2: Program income cycle

The DRGR system administrator can generate reports to assist in overseeing the program, including reports showing grantee obligations and expenditures compared with grant amounts and the submission status of action plans and performance reports. HUD planned to add a reporting module to DRGR in May

[5] Program income, in general, means gross income received by the recipient or a subrecipient directly generated from the use of program funds.

or June 2009 that will allow field staff to generate the reports independently. HUD delayed implementation of the module because the vendor was in the process of installing a new version of the reporting software. HUD preferred to complete testing using the new version of the software before implementation. HUD should implement its planned reporting module, which will provide an accessible tool to assist field staff in monitoring the program. Figure 3 depicts the processes for quarterly performance reports, drawdowns, and management reports.

Figure 3: Quarterly performance reports, drawdowns, and management reports



DRGR can collect and report addresses for properties assisted under the program in quarterly performance reports. HUD should require that grantees include this information to assist it and others in evaluating the effectiveness of the program and monitoring for indications of fraud, waste, and abuse.

Additional fields or performance measures may be beneficial in overseeing grantee compliance with program requirements. For example, grantees are required to provide home-buyer counseling for certain eligible activities. A

performance measure associated with the number of home-buyer courses provided would prompt grantees to ensure they were in compliance with the requirement. HUD should consider adding fields to DRGR that require grantees to report compliance-related information. This information might address continued affordability periods and certifications that grantees met local rehabilitation standards. HUD should confer with its office of legal counsel in making determinations about what additional information to collect to ensure it complies with the Privacy Act and related laws.

HUD Continues to Develop Monitoring Guidance

HUD's preliminary focus for the program was establishing the program rules, executing grant agreements, and setting up grants and action plans in DRGR. HUD is in the process of developing monitoring guidance for both on-site review of grantee activities and for review of grantee drawdown requests and quarterly performance reports. Such monitoring activities are essential for proper oversight of the program. While the information grantees will enter into DRGR will be helpful in assessing grantee progress in carrying out the program, it is not a substitute for on-site monitoring. Field staff should use the information to supplement vigorous monitoring activities.

HUD should ensure its monitoring guidance directs field staff to review quarterly performance reports for indications of problems. For example, if a grantee reports activities such as the resale of rehabilitated homes, HUD should ensure the grantee reports program income related to the sale if applicable. Likewise, HUD staff should periodically review grantee obligation and expenditure amounts in DRGR to assess whether grantees will meet legislative obligation and expenditure deadlines.

Conclusion

HUD worked to ensure DRGR's functionality would accommodate program requirements. DRGR collects sufficient data to assist HUD management in assessing grantee performance. HUD should continue this proactive approach in its monitoring activities and ensure that those activities verify and make use of the information in DRGR.

The audit did not identify additional concerns related to HUD's plan to use DRGR to monitor grantee performance and activities under the ARRA program. The audit did not review the system's adequacy to comply with specific ARRA transparency and reporting requirements. HUD should continue to closely review

grantees' action plans and create additional fields in DRGR as necessary to assist its efforts to satisfy mandated reporting requirements.

Recommendations

We recommend that the General Deputy Assistant Secretary for Community Planning and Development

1A. Develop and implement detailed on-site monitoring guidance for the program that incorporates information in DRGR.

1B. Develop and implement detailed guidance requiring field staff to aggressively review grantee quarterly performance reports and drawdown vouchers to identify potential noncompliance issues or missing information, including reasonableness and timeliness of obligations and expenditures and unreported or unused program income.

1C. Require grantees to include the addresses of properties assisted under the program in quarterly performance reports.

1D. Consider adding additional fields to DRGR that require grantees to report compliance-related information.

SCOPE AND METHODOLOGY

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The report covers information available through April 30, 2009. We conducted the audit at the Fort Worth Office of Community Planning and Development, the headquarters Office of Community Planning and Development, and our office in Fort Worth, Texas. To address the audit objectives, we

- Reviewed applicable laws and program guidance.
- Reviewed DRGR system training materials available online and participated in a training session provided by the system administrator.
- Using the relevant criteria, determined what data elements are required/necessary for HUD to effectively monitor program funds, grantee activities and assets, program income, and program outcomes.
- Obtained and reviewed draft monitoring review guidance and draft action plan review guidance.
- Interviewed HUD staff in headquarters and the field.
- Accessed the DRGR system and reviewed the content and format of grantee plans, reports, and drawdown vouchers. We also obtained lists identifying the national objectives, performance measures, and activities available for selection in DRGR action plans and reports.

The audit addressed the system's capability to administer program funds appropriated by HERA. We did not review the system's adequacy to comply with additional transparency and reporting requirements of ARRA.

We did not rely on data in DRGR to form our conclusions and recommendations. Accordingly, we did not assess and do not express an opinion on information systems controls or the reliability of the data in the DRGR system.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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:

- Effectiveness and efficiency of program operations - policies and procedures implemented to provide reasonable assurance that a program meets its objectives while considering cost effectiveness and efficiency.
- Relevance and reliability of information - policies, procedures, and practices implemented to provide reasonable assurance that operations and financial information used for decision making and reporting are relevant, reliable, and fairly disclosed in reports.
- Compliance with applicable laws, regulations, and provisions of contracts or grant agreements - policies and procedures implemented to provide reasonable assurance that program implementation is in accordance with applicable laws, regulations, and provisions of contracts or grant agreements.
- Safeguarding of assets - policies and procedures implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

We assessed the relevant controls identified above. A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

We did not identify any significant weaknesses in the controls we assessed.