



**HUD's Office of Block Grant Assistance  
Washington, DC**

**State Community Development Block Grant  
Hurricane Disaster Recovery Program**



Issue Date: March 28, 2013

Audit Report Number: 2013-FW-0001

TO: Stanley Gimont, Director, Office of Block Grant Assistance, DGBPI

//signed//

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

SUBJECT: Generally, HUD's Hurricane Disaster Recovery Program Assisted the Gulf Coast States' Recovery; However, Some Program Improvements Are Needed

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's Office of Community Planning and Development's State Community Development Block Grant (CDBG) Disaster Recovery program for hurricanes occurring from August 2005 through September 2008.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (817) 978-9309.



March 28, 2013

## Generally, HUD's Hurricane Disaster Recovery Program Assisted the Gulf Coast States' Recovery; However, Some Program Improvements Are Needed

# Highlights

Audit Report 2013-FW-0001

### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) State Community Development Block Grant (CDBG) Hurricane Disaster Recovery program for hurricanes that hit the Gulf Coast States from August 2005 through September 2008. Our audit objective was to assess the program overall. Specifically, we wanted to (1) determine what had been accomplished using the funding and the funds remaining to be spent; (2) compare actual versus projected performance; and (3) identify best practices, issues, and lessons to be learned.

### What We Recommend

We recommend that the Director of the Office and Block Grant Assistance (1) require the States to report their actual achievements; (2) work with the States to ensure that they promptly budget all remaining funds in a timely manner; (3) continue to monitor the States of Louisiana and Texas to ensure they meet statutory requirements; and (4) work with its stakeholders to make improvements for current and future grantees in areas such as deadlines, program guidance, information system technology acquisitions, procurement, and homeowners' insurance.

### What We Found

The Gulf Coast States had made progress in recovering from the presidentially declared disasters as a result of several hurricanes. As of August 2012, the States had spent more than 87.5 percent of the available Katrina, Rita, and Wilma funds and 27.2 percent of the available Gustav, Ike, and Dolly funds. Thus, States had received almost \$24 billion and disbursed almost \$18.4 billion, resulting in about \$5.6 billion remaining to be spent. However, the States had budgeted only \$22.6 billion of the \$24 billion in Disaster Recovery funds. Some of the delay in budgeting funds could be attributed to the States revising their programs, State delays encountered due to lawsuits, or HUD's rejection of a State's Action Plan. The States primarily used the funding to assist communities in repairing and rebuilding housing, compensating homeowners, repairing infrastructure damage, and providing economic development. The States could improve on reporting their activities, as some of their activities had no or nominal progress reported because they did not generally report their progress until the projects were complete. In addition, while the States generally met the various statutory mandates, Texas and Louisiana had not met two mandates.

Although the States had made progress, based on our prior audits and a review of the program's data, there have been some lessons to be learned regarding deadlines, program guidance, information system technology acquisitions, procurements, and homeowners' insurance. If HUD makes needed changes, it should improve the effectiveness and efficiency of the program.

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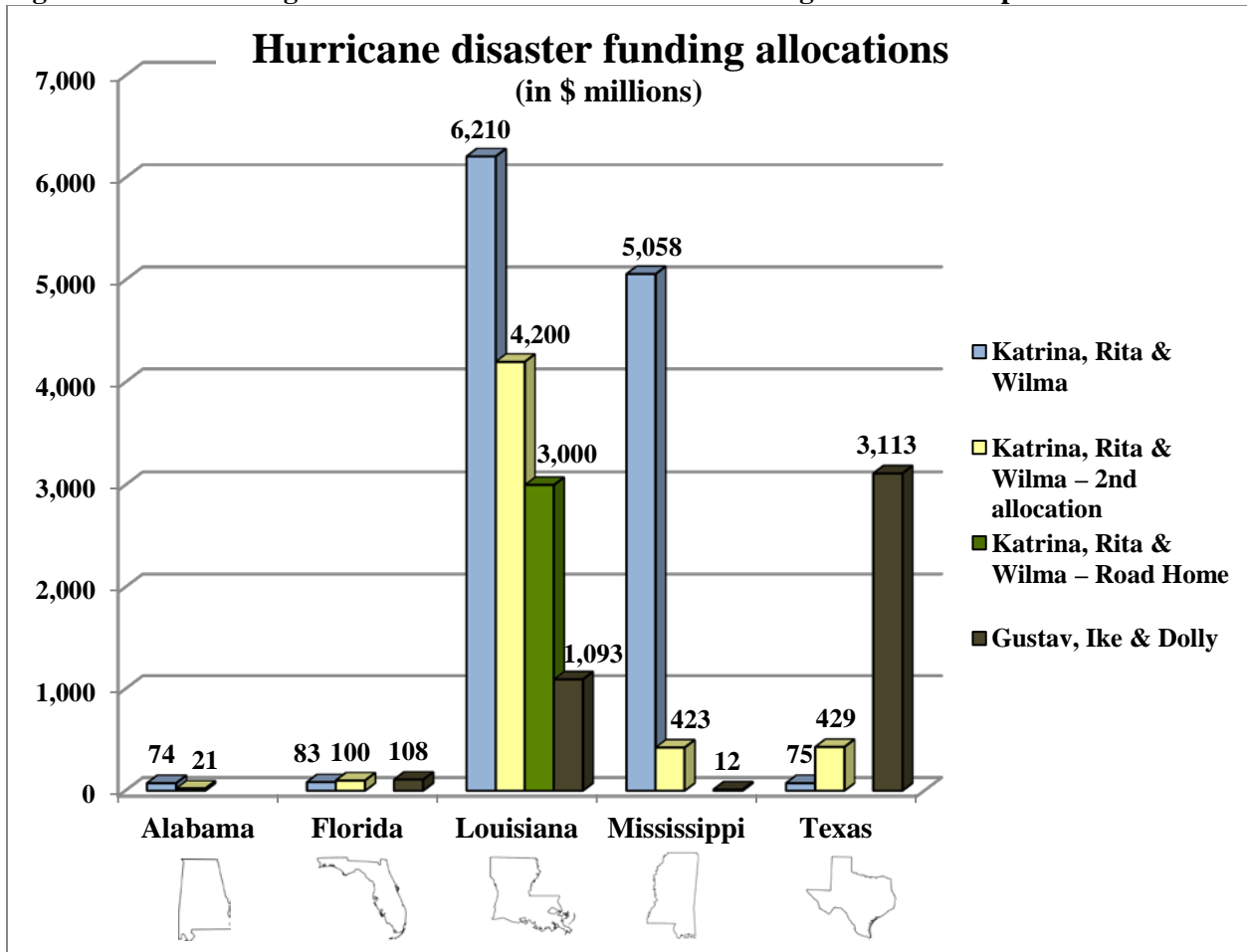
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## BACKGROUND AND OBJECTIVE

Between August 2005 and September 2008, Hurricanes Katrina, Rita, Wilma, Ike, Gustav, and Dolly<sup>1</sup> severely impacted the Gulf Coast States. Federal and State agencies' assessments of the damage to housing, businesses, infrastructure, and natural resources ranged in the billions of dollars. In response to the disasters, Congress authorized a total of almost \$24 billion in supplemental grant funds through the U.S. Department of Housing and Urban Development's (HUD) State Community Development Block Grant (CDBG) program, as shown in figure 1.

**Figure 1: Total funding for hurricanes that occurred between August 2005 and September 2008**



HUD's Office of Community Planning and Development's (CPD) State CDBG Disaster Recovery program provided flexible grants to aid the States in their recovery. CPD was responsible for the management of the disaster grant funds. It had two sections to maintain oversight of the funds. CPD's system and financial management section was responsible for evaluating and tracking the grantees' performance and monitoring financial policies and procedures. HUD developed the

<sup>1</sup> Katrina-August 2005, Rita-September 2005, Wilma-October 2005, Dolly-July 2008, Gustav and Ike-September 2008

Disaster Recovery Grant Reporting (DRGR) system that CPD used to track and monitor the program. CPD's program management section oversaw grant and grantee management including policy and procedure issues, which included ensuring that the grantee programs complied with the applicable laws, regulations, and notices.

Our audit objective was to assess the program overall. Specifically, we wanted to (1) determine what had been accomplished using the funding and the funds remaining to be spent; (2) compare actual versus projected performance; and (3) identify best practices, issues, and lessons to be learned. Regarding what had been accomplished, we expanded our objective to determine whether the States met the statutory requirements that (1) at least 50 percent of the grants be used on projects that benefited low- to moderate-income persons; (2) \$1.44 billion of the funds be used for affordable rental housing stock; (3) Louisiana budgeted at least \$10.1 billion for its Road Home Program; and (4) Louisiana expend at least 70 percent of its second allocation of Katrina, Rita, and Wilma funding in the New Orleans-Metairie-Bogalusa Metropolitan Area.

## RESULTS OF AUDIT

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### Finding 1: Generally, HUD's Hurricane Disaster Recovery Program Assisted the Gulf Coast States' Recovery; However, Some Program Improvements Are Needed

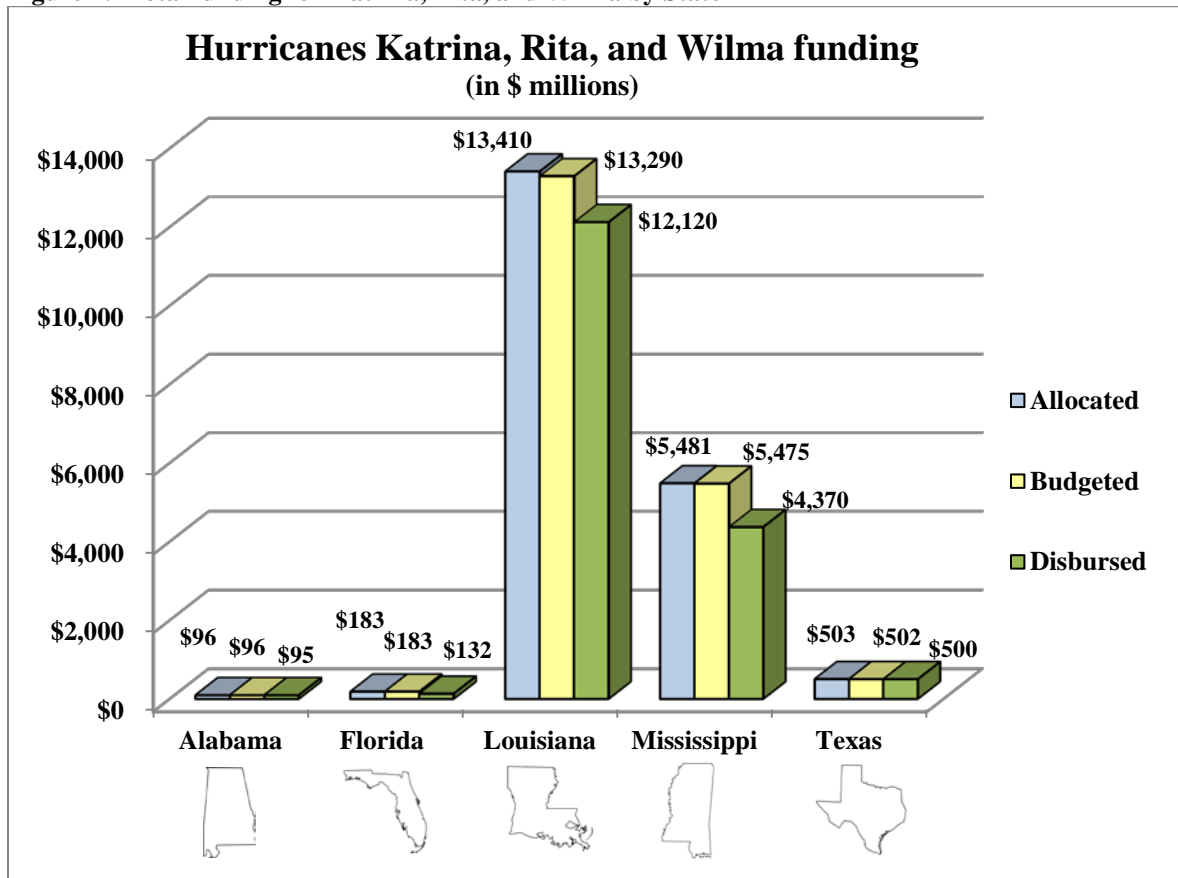
In the 7 years since the first in a series of six hurricanes hit the States, they had made progress in recovering from the presidentially declared disasters. The States primarily used the funding to assist communities in repairing and rebuilding housing, compensating homeowners, repairing infrastructure damage, and providing economic development. The States had spent more than 87.5 percent of the available Katrina, Rita, and Wilma funds and 27.2 percent of the available Gustav, Ike, and Dolly funds. Thus, the States had received almost \$24 billion and disbursed almost \$18.4 billion, resulting in about \$5.6 billion remaining to be spent. However, the States had budgeted only \$22.6 billion of the \$24 billion in Disaster Recovery funds. Some of the delay in budgeting funds could be attributed to the States revising their programs, State delays encountered due to lawsuits, or HUD's rejection of a State's Action Plan. The States could improve on reporting their activities, as some of their activities had no or nominal progress reported because the States did not generally report their progress until the projects were complete. The States generally met the statutory mandates. However, Texas and Louisiana had not met two mandates as Congress did not establish expenditure deadlines.

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#### State CDBG Funding Was Provided to, Budgeted by, and Disbursed by the States

To assist the States' recovery from the disasters, Congress provided four rounds of supplemental State CDBG Disaster Recovery funding. When it provided the funding, Congress did not establish time limits to spend the funds. Figures 2 and 3 depict the amounts of funding allocated, budgeted, and disbursed.

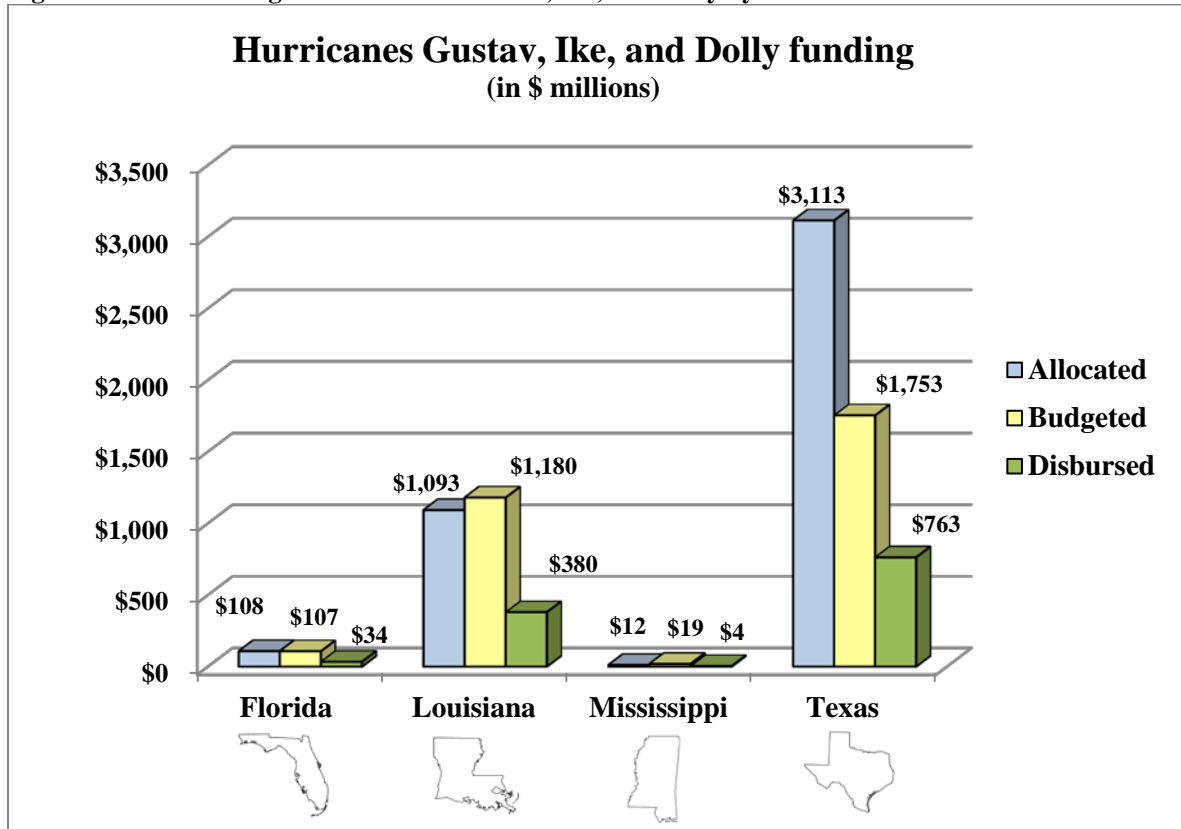
Figure 2: Total funding for Katrina, Rita, and Wilma by State



As of August 29, 2012, Alabama, Louisiana, and Texas reported having spent more than 90 percent of their Katrina, Rita, and Wilma funds awarded from 2006-2007. Mississippi had spent almost 80 percent and Florida almost 72 percent. Overall, for Hurricanes Katrina, Rita, and Wilma, the States received \$19.67 billion and disbursed almost \$17.22 billion (87.5 percent) of the awarded funds. About \$2.46 billion of Katrina, Rita, and Wilma funds had not been spent.



Figure 3: Total funding for Hurricanes Gustav, Ike, and Dolly by State



As of August 29, 2012, the States had disbursed between about 24 (Texas) and 35 (Louisiana) percent of the funds awarded in 2009. Louisiana and Mississippi budgeted more than Congress allocated, as these two States created programs like the homeowner’s program, housing for renters, and loan programs, which resulted in program income. HUD required the States to use the program income to further their recovery programs. Overall, for Hurricanes Gustav, Ike, and Dolly, the States had budgeted almost \$3.06 billion of the almost \$4.33 billion provided and had disbursed about \$1.18 billion (27.2 percent). About \$3.15 billion in Gustav, Ike, and Dolly funds had not been spent.

**The States Used the Disaster Funds To Rebuild Communities**

In carrying out the Disaster Recovery program, HUD required the States to use the funds “...for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure, housing, and economic revitalization in communities declared disaster areas.”<sup>2</sup> According to information reported to HUD, the States assisted homeowners and communities in rebuilding their

<sup>2</sup> 71 FR Notice (Federal Register Notice) 7666 and 74 FR Notice7244

housing and community infrastructure to better withstand future hurricanes and flooding. The States had reported progress in disaster recovery; however, their reporting on actual accomplishments by performance measure lagged behind the amount of funds disbursed. The table below depicts the States' financial disbursements and performance for all six of the 2005-2008 hurricanes, as reported by the States to HUD's DRGR system as of August 2012. See appendixes B and C for descriptions of the activity categories and specific performance measures, such as persons or families served or housing units provided, and the detailed results by individual States.

**States' funding and achievements by activity category and performance measures**

Activity categories	Budgeted (in millions)	Disbursed (in millions)	Percent disbursed	Performance measures		Percent achieved
				Projected	Actual	
Compensation	\$ 11,269	\$ 11,220	99.6%	206,316	157,851	76.5%
Infrastructure	2,651	1,637	61.8%	15,156,983	0	0.0%
Housing - rental	2,020	1,572	77.9%	55,211	35,036	63.5%
Public facilities	1,601	856	53.5%	4,655	338	7.3%
Economic Development	1,495	629	42.1%	123,062	124,922	101.5%
Housing - other	1,493	1,014	67.9%	29,021	12,101	41.7%
Administration	1,033	731	70.7%	N/A	N/A	N/A
Acquisition or Disposition	381	325	85.4%	82,922	10,337	12.5%
Miscellaneous	340	256	75.2%	5,001,500	1,101,933	22.0%
Planning	249	114	46.0%	N/A	N/A	N/A
Clearance or Demolition	60	35	58.0%	1,435,502	1,910	0.1%
Buyout	13	7	55.1%	27,216	54	0.2%
<b>Totals</b>	<b>\$ 22,605</b>	<b>\$ 18,396</b>	<b>81.4%</b>			

The States' projects fell into 12 activity categories and 36 activity types (see appendix D for details). Each State determined its own use of the funds through State Action Plans. Although the States had expended more than 86 percent of the funds, they had not reported data for the actual performance measures, including actual beneficiaries. For example, the States spent more than \$1.6 billion for infrastructure, or 61 percent of their project budgets, but they had not reported the actual number of persons served. In addition, the States had spent more than \$325 million for acquisition and disposition, or 85 percent of their project budgets, but they had reported only 12 percent of actual performance measures.

Further, since the States did not report their actual performance or results, HUD's DRGR data could not be used to estimate the status or cost of the various projects. Also, as the data were not complete, comparisons could not be made among the

various States' programs. HUD should encourage the States to report their actual achievements by performance measure in a timely manner.

In addition, the States had budgeted only \$22.6 billion of the Disaster Recovery funds; however, Congress allocated a total of almost \$24 billion to the affected States. Some of the delays in budgeting funds can be attributed to the States revising their programs, State delays encountered due to lawsuits, or HUD's rejection of a State's Action Plan. HUD should work with the States to ensure that they promptly budget all of the remaining unbudgeted funds.

### **The States Generally Complied With the Benefiting Low- and Moderate-Income Persons Mandate**

HUD required the States to use at least 50 percent of the aggregate of the Disaster Recovery funds to support activities producing benefit to low- and moderate-income persons.<sup>3</sup> In doing so, HUD waived its standard 70 percent requirement for overall benefit to low- and moderate-income persons. HUD established the 50 percent requirement to give the States greater flexibility in carrying out recovery activities within the confines of the State CDBG program's national objectives. HUD was allowed to provide additional waivers of this requirement only if the HUD Secretary specifically found a compelling need to further reduce or eliminate the percentage requirement. The requirement that each activity meet one of the three national objectives of the CDBG program was not waived.<sup>4</sup> The three national objectives are (1) benefiting low- and moderate-income persons, (2) preventing or eliminating slums or blight, and (3) meeting urgent needs.

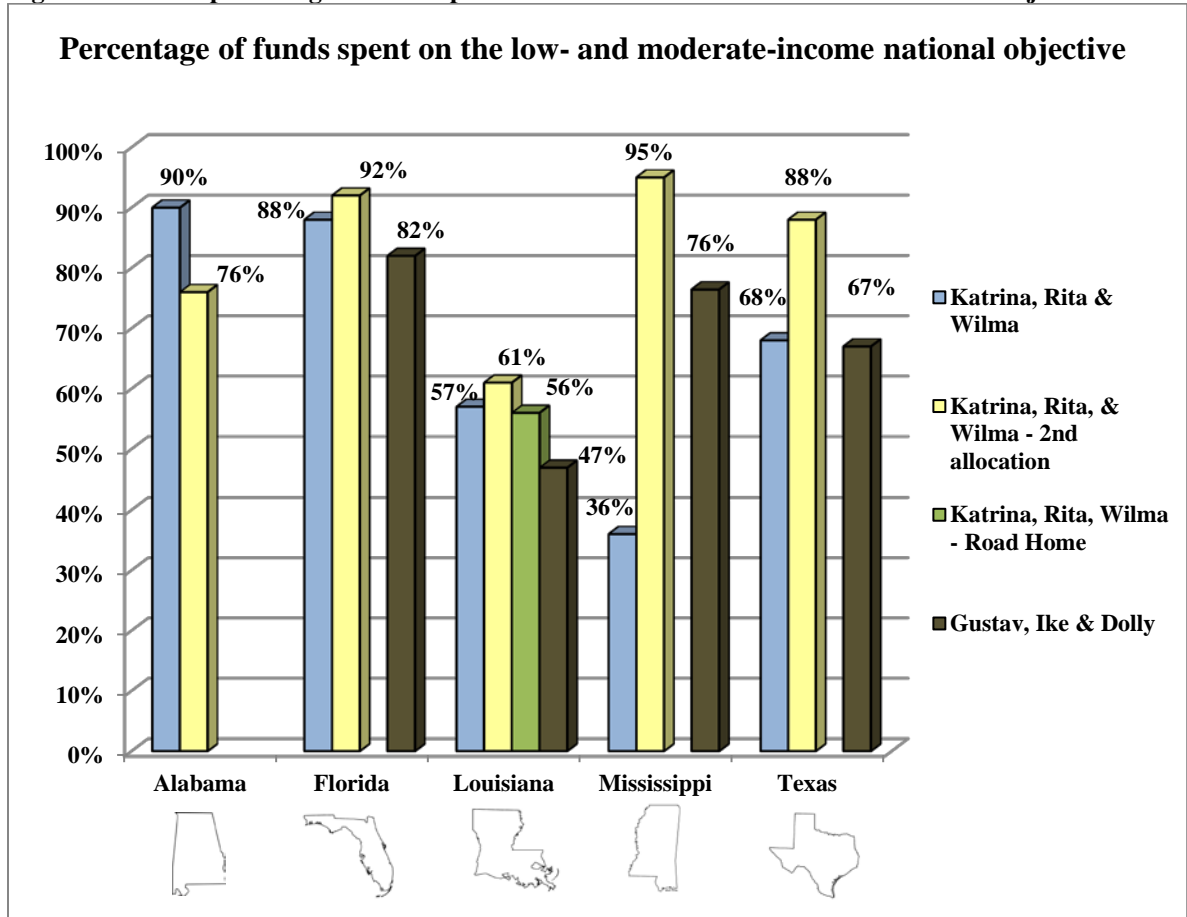
As shown in figure 4, the States generally met the requirement and used more than 50 percent of the funds on activities that benefited low- and moderate-income persons (for detailed results by State see appendix E). HUD granted one waiver for the low- and moderate-income requirement to Mississippi for one Katrina, Rita, and Wilma grant that did not meet the required percentage. In addition, Louisiana had one grant that expended only 47 percent under the low- and moderate-income national objective. However as of August 2012, this grant had not been fully expended, and the State had budgeted 52 percent for activities that would benefit low- to moderate-income persons. HUD should continue monitoring to ensure that Louisiana meets the 50 percent low- and moderate-income benefit national objective.

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<sup>3</sup> *Public Law (P.L.) 109-148, P.L.110-329*, 71 FR Notice 7666, and 74 FR Notice 7244

<sup>4</sup> 71 FR Notice 7666 and 74 FR Notice 7244

**Figure 4: States' percentage of funds spent for the low- and moderate-income national objective**

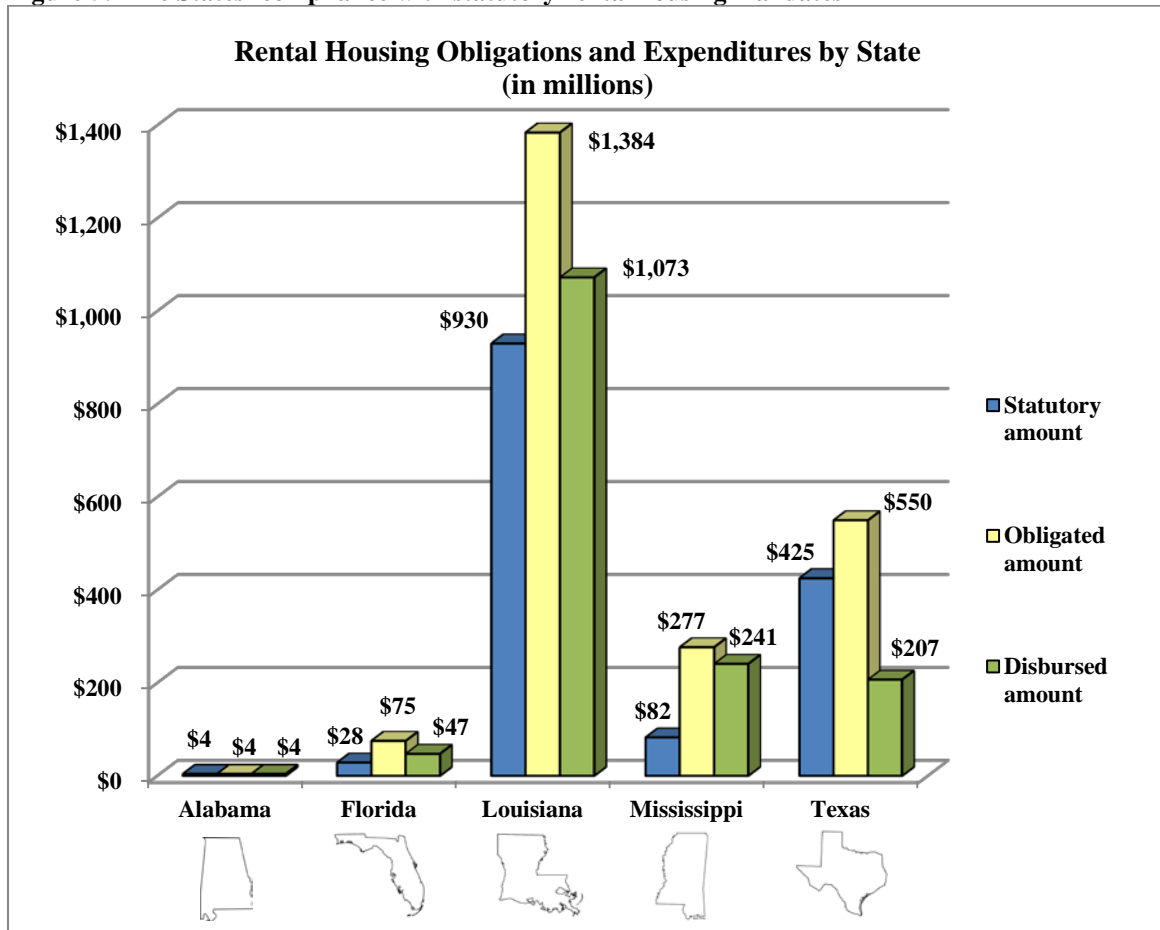


**Four States Met the Funding Mandate for Affordable Rental Housing Stock**

Congress and HUD required the States to set aside and use \$1.47 billion of their Disaster Recovery funding for the repair, rehabilitation, and reconstruction of affordable rental housing stock in hurricane-impacted areas.<sup>5</sup> As shown in figure 5, four States met or exceeded this mandate. Texas obligated funds in excess of its mandate, but it had not disbursed funds equal to or exceeding the mandated amount. HUD should continue monitoring and provide technical assistance to Texas until it has met or exceeded the mandate. As of August 2012, overall the States had obligated \$2.29 billion and disbursed \$1.57 billion on affordable rental housing projects. Further, the States had completed more than 36,000 rental housing units and assisted more than 35,000 renter households. For a summary of affordable rental households, see the table on page 6, and for results by State, see appendix C.

<sup>5</sup>P.L. 109-234, 71 FR Notice 63337 and P.L. 110-329, 74 FR Notice7244

Figure 5: The States' compliance with statutory rental housing mandates



**Louisiana Had Met the Road Home Funding Requirement**

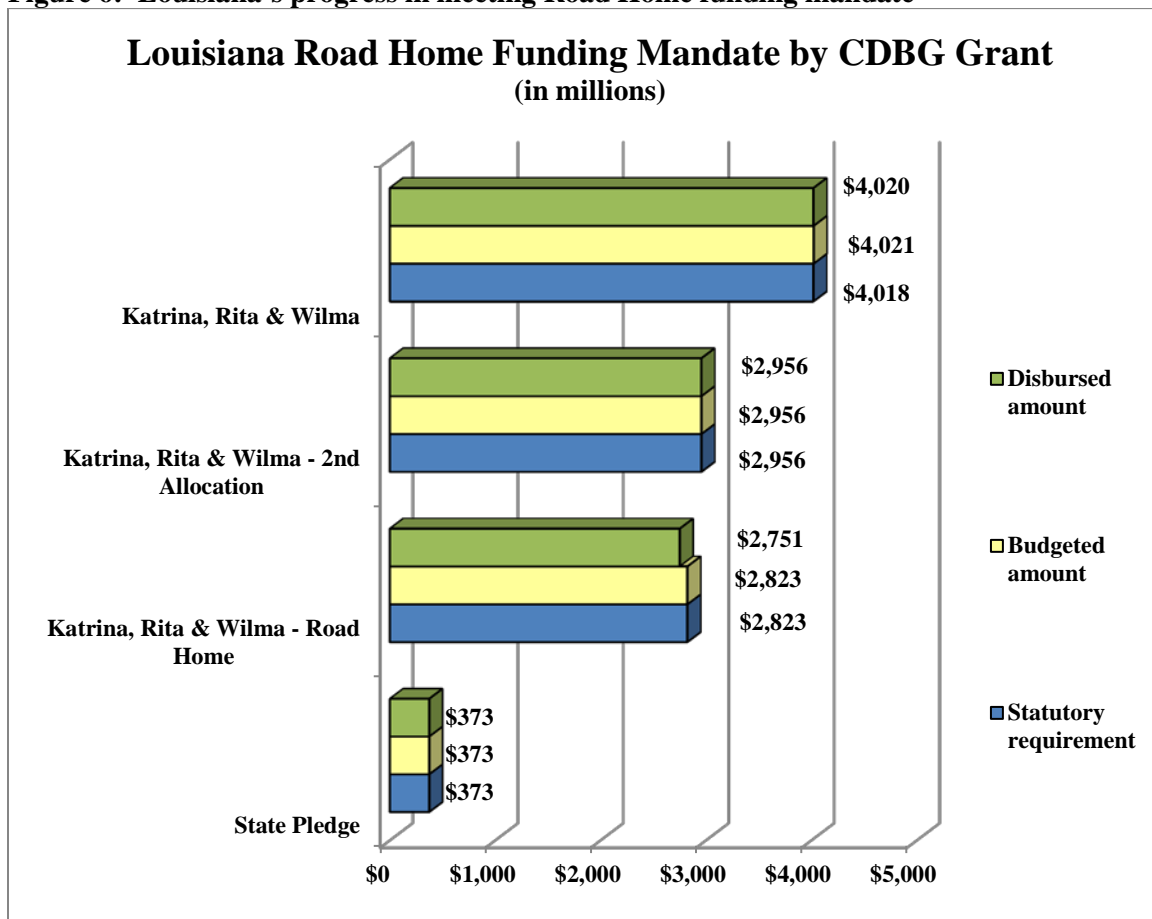
Congress and HUD required Louisiana certify that \$7.35 billion<sup>6</sup> in costs associated with the Road Home homeowner compensation program were assigned and expended<sup>7</sup> before HUD made available an additional \$3 billion in Katrina, Rita, and Wilma Road Home supplemental funding. The supplemental funds are to be used solely for the purpose of covering costs for eligible uncompensated claims that were filed on or before July 31, 2007. Louisiana budgeted \$2.82 billion of the Katrina, Rita, and Wilma Road Home supplemental funding but only has disbursed \$2.75 million. As shown in figure 6 below, as of August 2012, Louisiana has budgeted over \$10.17 billion and disbursed almost \$10.1 billion on homeowner compensation claims and costs associated with 136,187 households. Thus, Louisiana has exceeded the Road Home funding requirements of the Katrina, Rita, and Wilma first and second allocations. However, HUD should

<sup>6</sup> \$7,346,852,618 = \$4,017,990, 868 (P.L. 109-148 – Action Plan Amount) + \$2,956,361,750 (P.L. 109-234-Action Plan Amount) + \$372,500,000 State pledge

<sup>7</sup> P.L. 109-148, P.L. 109-234, P.L. 110-116, 71 FR Notice 7666, 71 FR Notice 63337, and 72 FR Notice 70472

continue to monitor Louisiana to ensure that the remaining budgeted funds in the Road Home grants are used on eligible claims filed on or before July 31, 2007.

**Figure 6: Louisiana’s progress in meeting Road Home funding mandate**

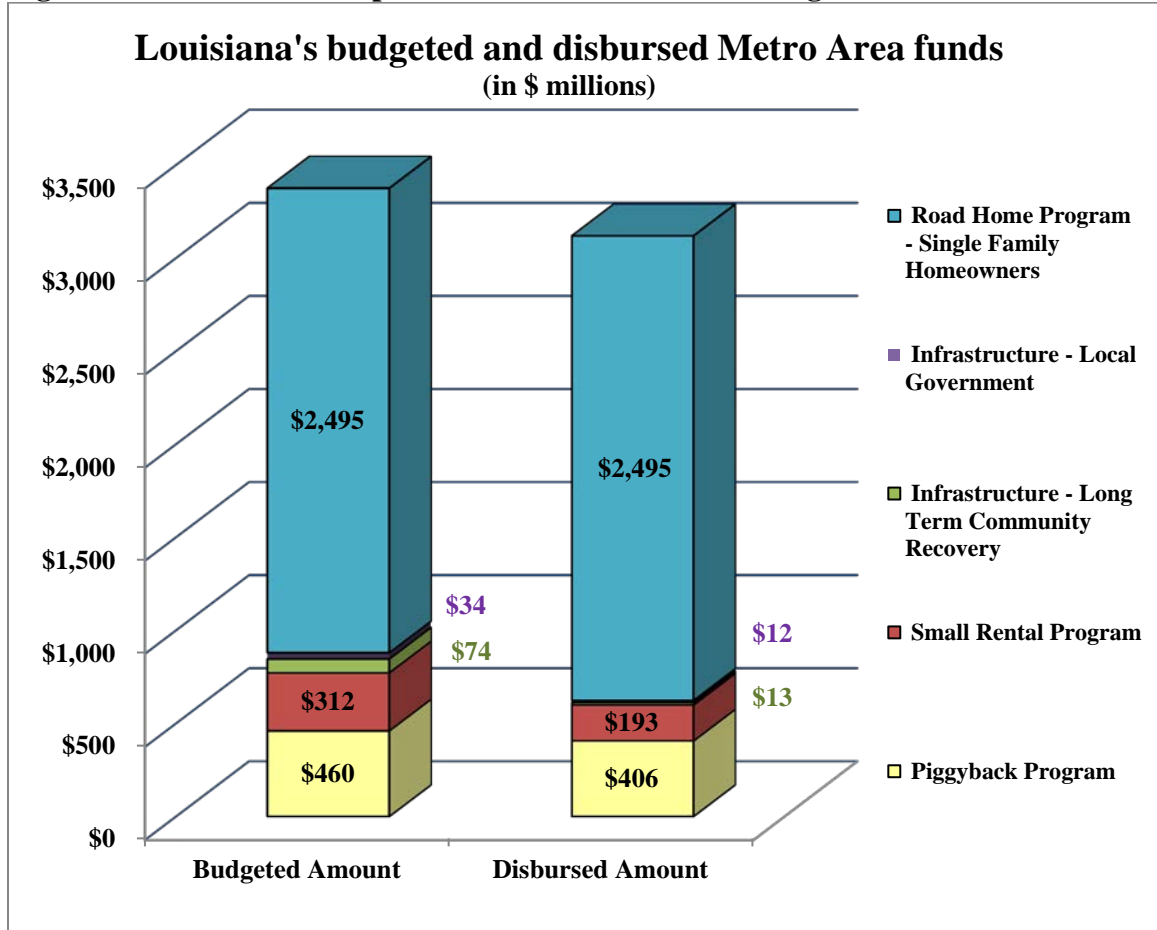


**Louisiana Met the Metropolitan Area Funding Mandate**

In Louisiana, HUD estimated that more than 85 percent of the major and severe damage due to the storms occurred in the New Orleans-Metairie-Bogalusa Metropolitan Area. The Metro Area included the following parishes: Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. John the Baptist, and St. Tammany. As a result, Congress and HUD required Louisiana to use 70 percent of its Katrina, Rita, and Wilma second allocation of \$4.2 billion, or \$2.94 billion, in the Metro Area.<sup>8</sup> As shown in figure 7, Louisiana exceeded this requirement, as it budgeted more than \$3.37 billion and spent \$3.12 billion for the Metro Area’s disaster recovery needs.

<sup>8</sup> P.L. 109-234 and 71 FR Notice 63337

**Figure 7: Louisiana's compliance with Metro Area funding mandate**



## Conclusion

Generally, the States had made progress in recovering from the effects of the hurricanes. However, the States could improve on reporting their activities, as some of their activities had no or nominal reported progress because they did not generally report their progress until the projects were complete. In addition, the States had spent more than 87.5 percent of the available Katrina, Rita, and Wilma funds and 27.2 percent of the available Gustav and Ike funds. Thus, they had received almost \$24 billion and disbursed almost \$18.4 billion, resulting in about \$5.6 billion remaining to be spent. However, the States had budgeted only \$22.6 billion of the \$24 billion in Disaster Recovery funds. Some of the delay in budgeting funds could be attributed to the States revising their programs, State delays encountered due to lawsuits, or HUD's rejection of a State's Action Plan. In addition, while the States had generally met the statutory mandates, Texas and Louisiana were nearing but had not met two mandates.

## Recommendations

We recommend that HUD's Director of the Office of Block Grant Assistance

- 1A. Require the States to report their actual achievements by performance measure in a timely manner.
- 1B. Work with the States to ensure that they promptly budget all of the remaining unbudgeted funds.
- 1C. Continue monitoring to ensure that Louisiana meets the 50 percent low- and moderate-income benefit national objective.
- 1D. Continue monitoring and provide technical assistance to Texas until it has met or exceeded the affordable rental housing mandate.
- 1E. Continue monitoring Louisiana to ensure that any remaining budgeted Road Home funds are used only on eligible claims filed on or before July 31, 2007.



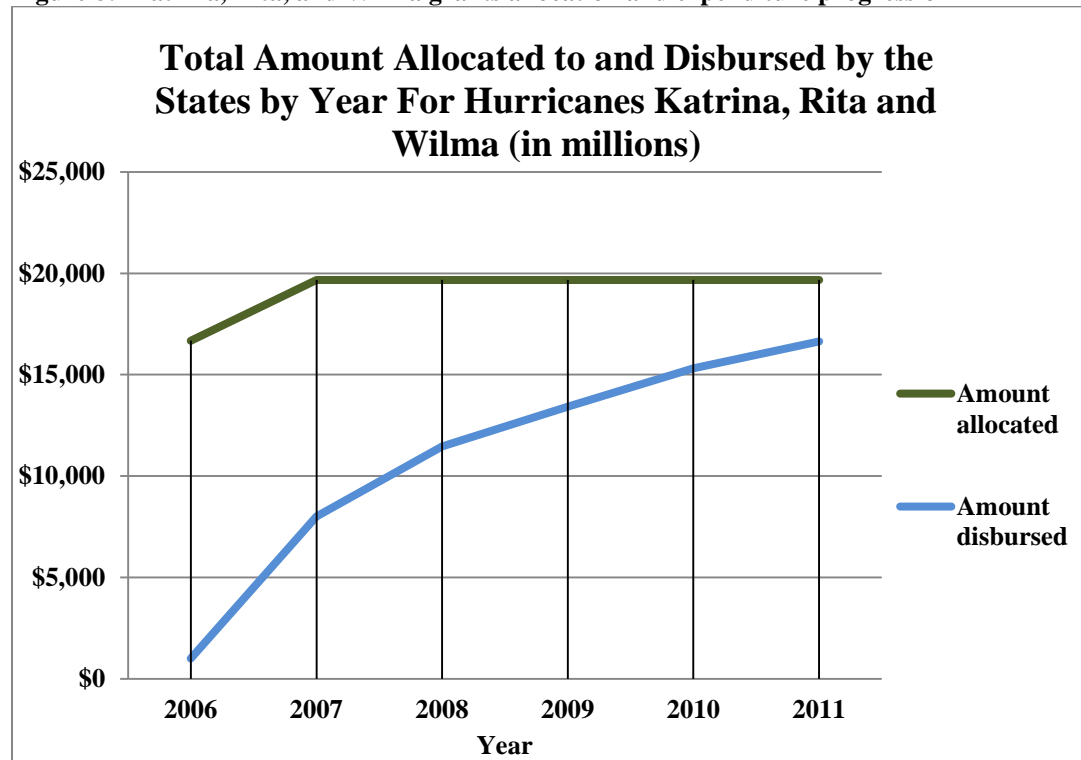
## Finding 2: HUD Could Improve the Hurricane Disaster Recovery Program by Working With Its Stakeholders Based on Lessons Learned

Although the States had made progress, based on our prior audits and a review of the program data, there are some lessons to be learned regarding deadlines, program guidance, information system technology acquisitions, procurement, and homeowners' insurance. HUD needs to work with its stakeholders to make improvements in these areas. If HUD makes such changes, it should improve the effectiveness and efficiency of the program.

### The States Encountered Delays in Completing Projects

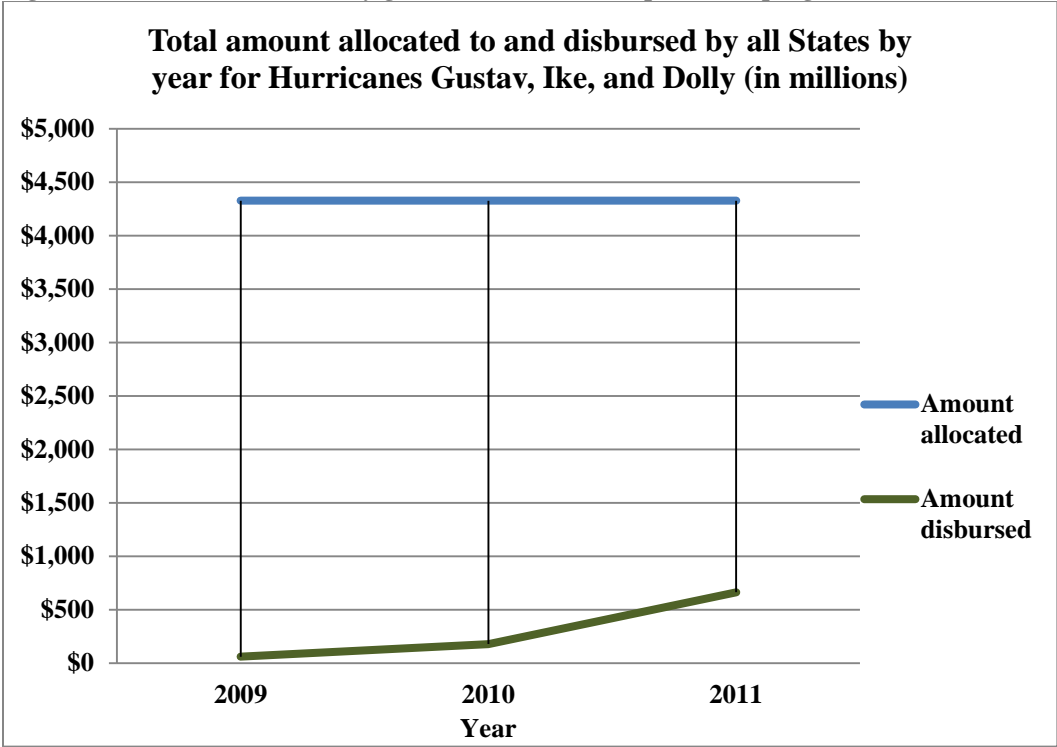
Some States suffered significant delays in rebuilding. Hurricane Katrina made landfall on the Louisiana coast line in August 2005. As of December 2011, the States continued to implement their State Action Plans. As shown in figure 8, the States had spent about \$16.64 billion of the \$19.67 billion funded for Hurricanes Katrina, Rita, and Wilma. As a result, the States still needed to spend \$3.03 billion, or 15.4 percent of the funds allocated. See appendix F for allocation and expenditure progression graphs by the individual States.

Figure 8: Katrina, Rita, and Wilma grants allocation and expenditure progression



The scope of damage caused by Hurricanes Katrina, Rita, and Wilma was staggering. The impacted States had to undertake and develop plans and regulations, computer systems, and internal controls to prevent fraud and duplication of benefits. Some States developed complex programs and controls, while others became embroiled in lawsuits. Further, when Hurricane Ike struck the States in September 2008, it caused additional damage in areas that had been previously impacted, which further delayed the rebuilding process. As shown in figure 9, in December 2011, the States had spent about \$664 million of the almost \$4.33 billion funded for Hurricanes Gustav, Ike, and Dolly. As a result, the States still needed to spend almost \$3.66 billion, or 84.5 percent of the funding. See appendix G for allocation and expenditure progression graphs by the individual States.

**Figure 9: Gustav, Ike, and Dolly grant allocation and expenditure progression**



The States’ delays did not violate statutory or program requirements. The appropriation acts authorized the use of the State CDBG Disaster Recovery funds until expended. Further, the States were conflicted in trying to provide immediate assistance to the victims, ensure compliance with program rules, and prevent the duplication of benefits. The States’ programs ranged from assisting as few as 9 types of activities to as many as 35. To attempt to ensure the appropriate use of disaster funds, each State created new disaster program policies that took several months. Most of the States described a lack of policy and guidance in creating their implementing policy but indicated they were under pressure to get the funds out. One State described not releasing funds until all program internal controls were in place to protect the funds. This measure resulted in the State’s taking

more than 19 months after its first Katrina, Rita, and Wilma grant and 28 months after Katrina hit to rebuild its first home. In contrast, another State created a program to compensate the homeowners and provided compensation within 4 months of receiving its first grant and 12 months after Katrina hit. As the delays in completing activities were significant, we recommend that HUD work with Congress and the States to explore options to spend the remaining funds promptly. Further, to mitigate future delays, HUD should work with Congress and suggest deadlines for future Disaster Recovery funds.

### **The States Did Not Report Results Based on the Public Law Categories**

The States were not reporting progress by the five general Disaster Recovery public law categories: disaster relief, housing, infrastructure, long-term recovery, and economic revitalization. This condition occurred because neither HUD nor Congress clearly defined the public law categories and the States were not familiar with or required to use the terms to report progress. Instead, the States reported results by the State CDBG program activity categories. When we asked them to provide results based on the public law categories, all five States indicated unfamiliarity with the terms in regard to their projects and did not know how some of their projects fit into the five public law categories. Therefore, it could not be determined how the States used the funds according to the public law categories. Since the States did not have the information, public law category comparisons and evaluations could not be made. If HUD issues public law category definition guidance, it would have better assurance that the funds would be used for their intended purpose. Appendix B shows the DRGR system State CDBG program activity categories that the States selected to report their quarterly status results.

### **Three States Implemented Various Systems at Great Expense**

Although HUD's DRGR system was generally adequate to track and report the Disaster Recovery grant funds and projects, three States hired a contractor and created an information system at great expense. The three States' did not clearly detail or describe their system costs, which varied widely, ranging from one State's budget of \$1.2 million to another State's expenditures of more than \$295 million. In addition, after paying to create the systems described, two of the three States decided to purchase an off-the-shelf product that they determined would meet their current and future system needs. The States purchased a system that they said gave them the ability to retain an ownership license, allowed them to maintain all disaster programs under one system, and would produce cost savings.

The States incurred these duplicative and significant system costs because HUD allowed the States maximum feasible deference in the implementation of their Disaster Recovery programs as allowed by the State CDBG program regulations. However, HUD should consider providing training and guidance on this issue to future Disaster Recovery grantees to prevent this expense from recurring.

### **Some States Did Not Follow Federal Procurement and State CDBG Contracting Requirements**

As allowed by State CDBG program requirements, the States followed their own procurement policies rather than using Federal procurement policies.<sup>9</sup> They also lacked familiarity with the State CDBG program procurement restrictions, as the States normally do not directly administer the State CDBG grants but distribute the funds to units of local government.<sup>10</sup> The States agreed that the Federal procurement requirements were useful, and some States required that Federal procurement policies be followed when procuring services. However, our audits of three States found CDBG procurement violations and other contracting problems, which included questioned costs and funds to be put to better use totaling more than \$107 million.<sup>11</sup> For example, HUD's State CDBG regulation and Federal procurement requirements prohibit a cost plus a percentage of cost method of contracting. Yet, our three audits of two States found they awarded contracts where the contractor applied this disallowed type of contract to its payments. In one case, the State did not cite any Federal regulatory requirements in its contract, which left it without recourse in recovering funds from the contractor. Further, the States had other varied significant contracting issues like unsupported major contract modifications, failing to follow their own procurement requirements, a lack of procurement documentation, and vague contracts.

State CDBG requirements allowed the States to follow their own requirements, but this meant that HUD had to learn each State's procurement requirements to monitor and review the States' procurement compliance. HUD had previously added the Federal cost principles<sup>12</sup> to the States' grant agreements, which were not included in the State CDBG program requirements. Due to the procurement problems found by our audits, HUD should also consider adding the Federal procurement requirements to the grant agreements, as future disaster grantees will likely contract for services. HUD should also ensure the States are knowledgeable of, trained in, and follow the Federal requirements.

<sup>9</sup> 24 CFR (Code of Federal Regulations) Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments, section 36 - Procurement

<sup>10</sup> 24 CFR Part 570, Subpart I, Part 480, and *P.L. 109-148*

<sup>11</sup> See appendix H, audit reports 2, 5, 16, 17, and 25

<sup>12</sup> 2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (Office of Management and Budget Circular A-87)

## Some States Did Not Take Sufficient Steps To Protect the Invested Federal Funds

Some States did not require adequate homeowners' insurance for the homes built or rehabilitated with Disaster Recovery funds. Texas initially did not require insurance. It modified its program for the Katrina, Rita, and Wilma second allocation and, along with Louisiana and Florida, required insurance for 3 years. Alabama adopted a deed restriction that "strongly encouraged" insurance. For the Gustav, Ike, and Dolly allocation, Texas again modified its program and stated insurance was required, but its policy, like Alabama's deed restriction, stated only that failure to maintain insurance "may" impact future disaster assistance. However, Mississippi took an aggressive stance by requiring a transferrable covenant that required insurance at all times. These variations occurred because HUD allowed the States maximum feasible deference in the implementation of their Disaster Recovery programs as allowed by the State CDBG program.

HUD needs to adopt a best practice to address the issue of insurance to ensure that the Federal funds invested in the assisted homes are protected in the event of future hurricanes or disasters. Since Hurricane Katrina in 2005, an additional 10 hurricanes and other storms have hit the States and caused damage. Further, our audit of Texas<sup>13</sup> found that Hurricane Ike had damaged homes repaired or replaced by Katrina, Rita, and Wilma grant funds, which lacked insurance. In one extreme case shown in figures 10 and 11, an uninsured home suffered significant structural damage, and the homeowner inquired about additional disaster assistance for his recently replaced home.



**Figure 10:** Uninsured manufactured home damaged by Hurricane Ike

<sup>13</sup> See appendix H, audit report 13.



**Figure 11:** Interior view of the damaged manufactured home showing the shattered roof, joists, and rafters

The Texas audit also found that of a sample of 59 Katrina-, Rita-, and Wilma-funded homes tested, 38 homes were later damaged by another hurricane or storm. Of the 38 homes, 23 did not have insurance. Based on a projection of the sample results, at least 133 of 453 reconstructed or rehabilitated homes or homes awaiting reconstruction lacked insurance and were damaged or are at risk of being damaged by another storm. The report concluded that if Texas changed and improved its action plan and policies, an estimated \$60.2 million in program funds could be saved.

For Hurricane Isaac, which struck in August 2012, initial reports estimated damage to 13,000 homes in Louisiana located in the same areas previously affected by Katrina. Since Louisiana required insurance for only 3 years, there is the potential that damage had occurred to Disaster Recovery-assisted homes completed before 2009 that may lack insurance, as the State's required insurance period had expired and nothing would prevent homeowners from seeking additional Federal assistance.

## Conclusion

The States had made progress in recovering from the presidentially declared disasters by repairing and rebuilding housing and infrastructure and performing economic development. Although the States had made progress, there have been some lessons to be learned. HUD needs to work with its stakeholders to make improvements regarding deadlines, program guidance, information technology

acquisition, procurement, and homeowners' insurance. If HUD makes such changes, it should improve the effectiveness and efficiency of the program.

## Recommendations

We recommend that HUD's Director of the Office of Block Grant Assistance

- 2A. Work with Congress and the States to explore options to spend the remaining funds promptly.
- 2B. Work with Congress to implement deadlines for future Disaster Recovery grants.
- 2C. Develop and issue guidance that defines the public law categories of disaster relief, housing, infrastructure, long-term recovery, and economic revitalization and describes how these categories fit within the State CDBG program categories to ensure consistency, alleviate confusion, provide better assurance that the funds are used for their intended purpose, and allow for comparisons and evaluations based on the public law categories.
- 2D. Train future Disaster Recovery grantees about the potential problems of contracting to create an information system.
- 2E. Encourage future grantees to network and coordinate with existing grantees concerning information systems.
- 2F. Include the Federal requirements in the Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments in its future Disaster Recovery grant terms.
- 2G. Provide procurement training and technical assistance to ensure that future Disaster Recovery grantees are aware of and follow Federal procurement requirements.
- 2H. Adopt a best practice to address the issue of homeowners' insurance for homes assisted with disaster funds to ensure that the Federal funds invested in the homes are protected.

## SCOPE AND METHODOLOGY

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Our audit scope originally covered the period from December 2005 through December 2011. We expanded the scope to include DRGR system data through August 2012. We performed our audit from March 2012 through January 2013 at HUD's Office of Block Grant Assistance in Washington, DC; the five States' Disaster Recovery offices located in Montgomery, AL, Tallahassee, FL, Baton Rouge, LA, Jackson, MS, and Austin, TX, and our offices located in Fort Worth and San Antonio, TX.

To accomplish our objective, we performed the following:

- Obtained and reviewed the public laws related to disaster relief, housing, long-term recovery, restoration of infrastructure, and economic revitalization in areas affected by Hurricanes Katrina, Rita, Wilma, Gustav, Ike, and Dolly. We summarized funding information in the public laws to determine the amount of funding provided for the hurricanes.
- Obtained and reviewed HUD Federal Registers that allocated and provided common application, waivers, and alternative requirements for State CDBG Hurricane Disaster Recovery grantees.
- Obtained and reviewed all of the States' Disaster Recovery grants.
- Obtained and reviewed criteria applicable to the State CDBG program and the Office of Management and Budget's cost circular cited in the Disaster Recovery grants.
- Obtained and reviewed HUD manuals and guidebooks related to its assistance processes, monitoring, and the DRGR system.
- Obtained and reviewed HUD general and State-specific waivers.
- Obtained and reviewed 36 HUD monitoring reports issued concerning Hurricane Disaster Recovery activities.
- Obtained and reviewed 26 HUD OIG audit reports issued concerning the Hurricane Disaster Recovery program. We reviewed the report recommendations to determine their current status.
- Interviewed staff from HUD's Disaster Recovery and Special Issues Division.
- Interviewed the States' Hurricane Disaster Recovery Department personnel, a State consultant in Florida, and a State contractor in Mississippi.
- Obtained access to and downloaded data from HUD's DRGR system.
- Conducted data validation and reliability testing of the DRGR system data by selecting a sample of 47 project activities, consisting of 7 in Alabama, 10 in Florida, 10 in Louisiana, 10 in Mississippi, and 10 in Texas out of a universe of 3,070 project activities. The projects were selected based on the States' method of distribution, which included economic development or revitalization, housing, rental housing, infrastructure, public service, tourism, and waived projects. The selected projects were also chosen based on various risk assessments. The project activities were then reviewed to confirm the reliability of the States' reported project performance measures in the DRGR system information by comparing and matching the sample projects to States' reported electronic and hardcopy project information in the DRGR system to the States'



information. We relied on the computer-processed data we obtained from HUD's DRGR information system. The data were validated and sufficiently tested to determine that the data were sufficiently reliable to be used to answer our audit objectives.

- Analyzed and summarized the DRGR information system data to quantify the States' Hurricane Disaster Recovery progress. Information was totaled as of December 2011 for delays in expending funds. Information was totaled as of August 2012 for spending by activity category and for performance measures. Steps were taken to ensure that beneficiaries were counted only once for each activity category in the table and appendixes contained in the report.
- Obtained additional financial and performance data from State officials to confirm compliance with the statutory requirements for (1) using 50 percent of the funds for projects that benefited low- to moderate-income persons, (2) affordable rental housing, (3) the Road Home program, and (4) the New Orleans-Metairie-Bogalusa Metropolitan Area. The information was compared to the statutory limits in the public laws to test whether each requirement was met.
- Determined and graphed delays in project completion by individual State and by all States by comparing allocated funding in the public laws to DRGR disbursed data.
- Attempted to obtain the States' project progress by the five general Disaster Recovery categories in the public law. This was done because it was determined that DRGR did not report project progress by the public law categories.
- Analyzed prior OIG audit reports and working papers concerning the States' acquisition of information systems. We determined the systems cost for one State by totaling what was in the State's budget and for another state by totaling what the State had expended.
- Analyzed prior OIG audit reports concerning Hurricane Disaster Recovery procurements made by the States. We summarized the results of those audits and made conclusions concerning systemic problems.
- Contacted four States to obtain information on their insurance requirements. We obtained and reviewed current news information concerning Hurricane Isaac damage in Louisiana. We analyzed the States' requirements and policies to reach conclusions concerning best practices.

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.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Public laws and regulations established to ensure the States use the funds for their intended purposes.
- HUD policies and procedures intended to ensure that disaster grant funds are used appropriately for State CDBG eligible projects.
- HUD oversight of program operations, progress, and reporting.

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 objectives in accordance with generally accepted government auditing 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 HUD's internal control.

## FOLLOW-UP ON PRIOR AUDITS

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### **Audit Report 2008-AO-1002 Issued January 30, 2008**

#### **State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination**

The following recommendations were still open at the time of this report: 1A. Require the State to repay \$743,344 disbursed for the 17 ineligible grants to its Road Home program, and 1C. Review all the remaining 392 grants coded ineligible or lacking an eligibility determination and either support or repay \$14,697,812 disbursed for them. HUD agreed that \$403,903 was disallowed under recommendation 1A and \$4,615,112 was disallowed under recommendation 1C. Both recommendations are under a repayment agreement. The agreement required the State to process the subject files through its grant recapture/grant recovery process. It also required the State to report and repay any funds received as a result of unsupported or ineligible costs on a quarterly basis until the finding recommendations were closed.

### **Audit Report 2008-AO-1005 Issued August 7, 2008**

#### **State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Did Not Ensure All Additional Compensation Grant Applicants Were Eligible**

The following recommendation was still open at the time of this report: 1C. Require the State to review the remaining 21,672 grants disbursed between June 12, 2006, and October 13, 2007, to ensure that grants were eligible and supported. HUD agreed that the State must repay funds disbursed for grants determined to be ineligible.

### **Audit Report 2009-AO-1001 Issued May 5, 2009**

#### **State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible to Receive Additional Compensation Grants**

The following recommendations were open at the time of this report: ...require the State to 1A. Repay \$228,930 disbursed for five ineligible grants to its Road Home program and 1C. Report the recapture and/or recovery of funds for all grants deemed ineligible. HUD agreed the funds were disallowed and that it would report or recapture the funds.

**Audit Report 2009-AO-1002**  
**Issued May 5, 2009**

**The State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible**

The following recommendations were still open: ...require the State to 1A. Repay \$294,060 disbursed for three ineligible grants to its Road Home program; 1B. Either support or repay \$441,027 disbursed for five unsupported grants; and 1C. Review all of the 117 grants related to multiple disbursements for 58 damaged residence addresses to determine eligibility. HUD agreed with the recommendations and disallowed both the ineligible and unsupported costs.

**Audit Report 2011-AO-1005**  
**Issued April 18, 2011**

**The State of Mississippi, Jackson, Generally Ensured That Disbursements to Program Participants Were Eligible and Supported**

The following recommendations were open: ...ensure the State 1A. Repays to its Program the \$90,000 in ineligible costs for the six participants who did not comply with the Program requirements and/or received assistance under the Mississippi Emergency Management Agency program; and 1B. Reallocates the \$75,000 in unreimbursed funds for the five programs participants who were later deemed ineligible, thereby ensuring that these funds are put to better use and used for eligible activities. HUD agreed that \$75,000 was ineligible and agreed with the funds to be put to better use.

**Audit Report 2012-FW-1005**  
**Issued March 7, 2012**

**The State of Texas Did Not Follow Requirements for Its Infrastructure and Revitalization Contracts Funded With CDBG Disaster Recovery Program Funds**


The following recommendations were open: 1B. Reimburse its Disaster Recovery program from non-Federal funds \$919,576, which was improperly paid to the contractor for amounts billed using the ineligible cost plus a percentage of cost payment method; 1C. Reimburse from non-Federal funds or provide support for the estimated \$7,599,747 in unsupported inflated labor costs; and 1D. Reimburse from non-Federal funds or provide support for the \$542,477 paid for unnecessary and unreasonable inflated labor costs. HUD agreed with the findings and disallowed the costs.

# Appendix A

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation


### Auditee Comments

  
OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-7000

MAR 20 2013

MEMORANDUM FOR: Gerald R. Kirkland, Regional Inspector General for Audit, 6AGA

FROM: Yolanda Chávez, Deputy Assistant Secretary for Grant Programs, DG 

SUBJECT: Audit Report: Generally, HUD's Hurricane Disaster Recovery Program Assisted the Gulf Coast States' Recovery; However, Some Program Improvements Are Necessary

The Office of Community Planning and Development (CPD) reviewed the draft report and would like to provide comments. CPD appreciate the level of effort that the OIG put forth into developing this audit. CPD believes that the Community Development Block Grant (CDBG) disaster recovery program has already implemented key steps to improve the effectiveness and efficiency of the program. CPD' specific comments, listed by finding recommendation, are described below:

**1A. Require the States to report their actual achievements by performance measure in a timely manner.**

States are required to report achievements by performance measure in a timely manner, and as the achievements are realized. For CDBG area benefit activities such as public facilities and infrastructure, grantees are required to enter the beneficiary data based on the "number of persons" metric and consistent with the Action Plan. For activities such as infrastructure and multifamily rental housing, grantees will report accomplishments at the end of construction. For direct benefit activities such as single-family housing and economic development, grantees are expected to enter the number and types of households as they are assisted. CPD reviews accomplishments on a quarterly basis. CPD added several key performance measures to DRGR in 2010 and worked with grantees during 2011 and 2012 to improve the quality of performance reporting. CPD will continue these efforts as part of the quarterly review of accomplishments.

**1B. Work with the States to ensure that they promptly budget all of the remaining unbudgeted funds.**

CPD works on a regular basis with grantees to budget and re-allocate unexpended funds. CPD identifies grant expenditures trends, in each monitoring report issued to grantees and will continue to work with grantees to ensure that all funds are expended in a timely manner. In 2012, CPD also instituted requirements for tracking certain expenditure milestones.

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Comment 1

Comment 2

**Comment 3****1C. Continue monitoring to ensure that Louisiana meets the 50 percent low- and moderate-income benefit national objective.**

The overall benefit test is one of the key compliance issues when reviewing quarterly reports and performing on-site monitoring since grants were awarded. As suggested by OIG, CPD will continue to conduct these reviews in Louisiana and strategize with the grantee whenever there is any indication that the grantee may not meet program requirements regarding overall benefit.

**Comment 4****1D. Continue monitoring and provide technical assistance to Texas until it has met or exceeded the affordable rental housing mandate.**

CPD has and will continue to monitor and provide technical assistance to Texas and all grantees that have appropriations with affordable rental requirements. Grants with these requirements were awarded under FY2006 and FY 2008; and they have different spending targets and the timelines for the appropriations. In this regard, CPD reviews requirements for both appropriations separately. All five Gulf Coast states, including Texas, have met the affordable rental housing requirement for the second appropriation under FY 2006 grants. Although some of the FY 2008 grants have already met the affordable rental requirement, CPD will continue to monitor and provide technical assistance to the other grantees, including Texas.

**Comment 5****1E. Continue monitoring Louisiana until the Road Home mandate is met.**

As the OIG indicated, Louisiana has demonstrated it has spent all funds allocated under the Road Home program under its first two appropriations. Under the third appropriation, Louisiana disbursed \$2,785,674,702.41 (98.5%) of the funds already authorized under its grant agreement. CPD will continue to monitor Louisiana to demonstrate it has fully spent all funds before authorizing any of the \$172 million remaining from the third appropriation.

On page 16, with regard to the statement that grantees were conflicted in trying to provide timely assistance in compliance with federal requirements, this is a balance that every federal grantee must strike that is made even more pressing by the nature of disaster relief. This has been the topic of previous presentations at CPD disaster recovery conferences and of numerous one-on-one conversations between CPD and grantees. Grantees establishing new programs will invariably face challenges. CPD will continue to provide technical assistance to help grantees balance speed with compliance. CPD is working to launch a disaster recovery toolkit for core recovery programs and post Frequently Asked Questions (FAQ) using queries from the One CPD Ask-a-Question website.

**Comment 6****2A. Work with Congress and the States to explore options to spend the remaining funds promptly.**

CPD reviews grantee spending and accomplishments at least quarterly and also reports program performance to Congress on a quarterly basis for some appropriations. CPD works with grantees to budget and re-allocate unexpended funds through the review and approval of Action Plan amendments. CPD identifies highlights grant expenditures in each monitoring report issued to grantees and will continue to work with grantees to ensure that all funds are expended in a timely manner. As noted in Recommendation 1B, HUD also instituted requirements for milestones for

expenditures in fiscal year 2012. HUD intends to press grantees on expending funds appropriated prior to FY 2012.

Comment 7

**2B. Work with Congress to implement deadlines for future Disaster Recovery grants.**

In CPD's recent *Federal Register* Notices for disaster assistance appropriations, grantees are already required to provide timelines for spending to help CPD direct its monitoring and technical assistance efforts. Congress has established a two year expenditure deadline for funds provided by the Disaster Relief Appropriations Act, 2013. The two year period is triggered by the obligation of funds to the grantee and HUD will carefully monitor grantee performance against this requirement.

Comment 8

**2C. Develop and issue guidance that defines the public law categories of disaster relief, housing, infrastructure, long-term recovery, and economic revitalization and describes how these categories fit within the State CDBG program categories to ensure consistency, alleviate confusion, provide better assurance that the funds are used for their intended purpose, and allow for comparisons and evaluations based on the public law categories.**

The categories outlined in the report represent the purpose of the disaster recovery appropriations. The disaster recovery programs operate within the statutory framework of the CDBG program regarding eligibility of specific activity. HUD allows waivers in order to customize the activity types to specific recovery-related needs. Each activity falls within one or more of the purposes of the statute. In this regard, all five statutory purposes are addressing disaster relief and long-term recovery so all activities fall under these two broad categories. CPD conducts compliance reviews based on the more specific activity. CPD will provide any assistance needed to OIG to resolve any confusion they have regarding this issue.

Comment 9

**2D. Train future Disaster Recovery grantees about the potential problems of contracting to create an information system.**

CPD's Disaster Recovery Grant Reporting (DRGR) system is used by grantees to disburse funds and report statistics regarding accomplishments and beneficiaries aggregated by national objective (beneficiary targeting), activity type, and responsible organization administering each activity. HUD uses this information to review program compliance, allowing CPD to identify any disallowed costs that appear ineligible based on remote and on-site monitoring. The grantee systems referenced in the report are case management systems for review of beneficiary eligibility requirements, management of awards, and disbursements of payments to individual households and properties. Under the regular State CDBG programs, States do not normally provide services directly through their own staff or contractors so they do not typically have a need for these systems. Based on the scale of the assistance provided, the speed needed to launch programs, and potential limitations regarding hiring government staff, the States reviewed chose private contractors that needed the systems to provide these services. Although CPD does not advocate specific types of case management information systems, CPD has held disaster recovery conferences in 2008, 2010, and 2012 for grantees to share their experiences and for OIG to provide information on audits and lessons learned. Information from these conferences is posted online. CPD will continue these efforts, including materials on special issues regarding the considerations of different service delivery methods and the information systems developed to implement programs.

**Comment 10****2E. Encourage future grantees to network and coordinate with existing grantees concerning information systems.**

CPD has held disaster recovery trainings in 2008, 2010, and 2012 for grantees to share their experiences and for OIG to provide information on audits and lessons learned. CPD will also host a disaster recovery training session for new grantees on March 18-20, 2013. Information from these conferences is posted online. Grantees are encouraged to learn from their peers, but HUD does not steer grantees to specific systems nor does HUD endorse a specific product.

**Comment 11****2F. Include the Federal requirements in the Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments in its future Disaster Recovery grant terms.**

Federal administrative requirements have always been included by reference in grant agreements between CPD and disaster recovery grantees.

**Comment 12****2G. Provide procurement training and technical assistance to ensure that future Disaster Recovery grantees are aware of and follow Federal procurement requirements.**

CPD will include this topic in future conferences and webinars, and post information on specific topics on the CDBG disaster recovery website.

**Comment 13****2H. Adopt a best practice to address the issue of homeowners' insurance for homes assisted with disaster funds to ensure that Federal funds invested in the homes are protected.**

One of the primary purposes of the CDBG disaster recovery program is to ensure that funds benefit low- to moderate-income persons, consistent with supplemental appropriation language, alternative requirements or waivers issued by HUD. To require insurance as part of eligibility screenings may exclude many low- and moderate-income people from the assistance. Although CPD does not believe the Department has the regulatory or statutory authority to require insurance coverage, CPD will provide training and technical assistance regarding different strategies grantees have used to improve insurance coverage in their programs.



## OIG Evaluation of Auditee Comments

- Comment 1** CPD indicated that the States are required to report in a timely manner and that some categories such as infrastructure and multifamily rental housing did not have performance measurement accomplishments reported because States do not report accomplishments until the end of construction. We disagree that States are reporting in a timely manner. For example, one State had four infrastructure projects where it had spent 100 percent of the funds; however, as the audit report showed, no actual performance measure accomplishments have been reported for the Infrastructure Activity Category. CPD needs to take additional steps to ensure that the States are reporting their actual achievements in a timely manner.
- Comment 2** CPD responded that it works on a regular basis to budget and reallocate unexpended funds. We acknowledge CPD's efforts in this area, but \$1.4 billion of the roughly \$24 billion provided had not been budgeted at the time of the audit.
- Comment 3** CPD responded that it will continue to review Louisiana's compliance with the overall benefit requirement. We recognize CPD's efforts in this area.
- Comment 4** CPD stated it has and will continue to monitor Texas' compliance with affordable rental requirements. We acknowledge CPD's monitoring and technical assistance in this area.
- Comment 5** Based on CPD's comments at the exit conference, we revised the Louisiana Road Home mandate section of the audit report. We provided the revised audit report section and revised recommendation 1E to CPD on February 27, 2013. CPD's response addressed the prior recommendation.
- Comment 6** CPD indicated that it reviews State spending and accomplishments quarterly. Further, it stated it had instituted milestone requirements for expenditures in 2012. It also stated that it intends to press grantees on expending funds. We recognize these actions and believe that HUD should work with Congress and the States to explore options to spend the remaining funds promptly.
- Comment 7** CPD indicated that the current disaster assistance appropriations, which included Hurricane Sandy funding, has a 2-year expenditure deadline. We acknowledge Congress' and CPD's positive action in this area. We will close this recommendation upon report issuance.
- Comment 8** CPD stated that each activity falls within one or more of the five purposes of the Disaster Recovery statute, but it indicated that all activities fall under the two broad categories of disaster relief and long-term recovery. We disagree that this is an area where OIG is confused as Congress created five statutory purposes, not two, for the funds; and neither CPD nor the grantees are tracking the funds by categories in the statute.

- Comment 9** CPD indicated it would continue to hold conferences with grantees to allow them to share experiences and to provide information on audits and lessons learned. We recognize CPD's action in this area.
- Comment 10** CPD indicated it had held and will host conferences for grantees, but it stated HUD does not steer grantees to a specific system or endorse a specific product. We acknowledge CPD's conference work, but we did not suggest that HUD steer grantees or endorse a specific product. Our recommendation was designed to prevent current and new disaster grantees from repeating past mistakes regarding information systems.
- Comment 11** CPD stated that Federal administrative requirements have always been included by reference in grant agreements between CPD and Disaster Recovery grantees. We disagree with CPD's statement. The grant agreements for Katrina and Ike specifically included by reference compliance with Office of Management and Budget Circular A-87;<sup>14</sup> however, no specific reference is made in the grants to the Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments (24 CFR Part 85). Further, State CDBG requirements allow States to not follow the federal administrative procurement requirements of 24 CFR Part 85.36, because under State CDBG the States do not normally directly contract for services. Since States are directly contracting for services under the Disaster Recovery grants, we stand by our recommendation that the grant agreements should include compliance with the requirements of 24 CFR Part 85.
- Comment 12** CPD indicated it would include the topic of procurement training in future conferences and webinars and post specific information on the CDBG Disaster Recovery website. We recognize CPD's positive action in this area. We will close this recommendation upon report issuance.
- Comment 13** CPD stated it does not believe it has the regulatory or statutory authority to require insurance coverage, but it stated it would provide training and technical assistance regarding different strategies grantees have used to improve insurance coverage. We disagree that providing training is sufficient. We believe that CPD has the responsibility to ensure that the federal funds used to rebuild disaster impacted areas are protected from waste and abuse, and it should adopt a best practice to ensure that the Federal funds invested in repaired or rebuilt homes are protected.

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<sup>14</sup> The Office of Management and Budget Circular A-87 has been relocated to 2 Part 225.

## Appendix B

### DRGR ACTIVITY CATEGORIES AND PERFORMANCE MEASURES REPORTED BY THE STATES

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The table below includes a description of the performance measures OIG selected from the DRGR system that were used by the States for table 1 in finding 1. Some States had more than one performance measure for an activity category; however, OIG compiled its report table only from the measures listed below.

<b>DRGR activity categories</b>	<b>Performance measure used</b>
Acquisition/Disposition	Number of households (FL and TX); persons (MS); housing units (LA)
Administration	N/A
Buyout	Number of housing units (FL, LA, and TX); properties (MS)
Clearance/Demolition	Number of households (AL); persons (FL, LA, MS, and TX)
Compensation	Number of households (all States)
Economic Development	Number of permanent jobs created (all States)
Housing – Other	Number of households (all States)
Housing – Rental	Number of households (all States)
Infrastructure	Number of persons (all States)
Miscellaneous	Number of persons (all States)
Planning	N/A
Public Facilities	Number of public facilities (all States)

## Appendix C

### INDIVIDUAL STATE FUNDING AND ACHIEVEMENTS BY DRGR ACTIVITY CATEGORY AND PERFORMANCE MEASURES

Alabama						
DRGR Activity categories	Budget	Disbursements	Percentage	<u>Performance Measures</u>		Percentage
			Disbursed	Projected	Actual	accomplished
Infrastructure	\$34,921,785	\$34,612,971	99.12	10,164	-	0.00
Housing - Other	32,534,520	32,534,520	100.00	378	378	100.00
Public Facilities	18,938,984	18,938,984	100.00	15	16	106.67
Housing - Rental	4,103,146	4,103,146	100.00	249	194	77.91
Administration	2,665,400	2,655,400	99.62	N/A	N/A	N/A
Clearance/Demolition	2,449,739	2,433,665	99.34	13,686	-	0.00
<b>Totals</b>	<b>\$95,613,574</b>	<b>\$95,278,686</b>	<b>99.65%</b>			

Florida						
Activity categories	Budget	Disbursements	Percentage	<u>Performance Measures</u>		Percentage
			disbursed	Projected	Actual	accomplished
Infrastructure	\$81,074,598	\$34,403,320	42.43	351,701	-	0.00
Housing - Other	78,116,491	55,082,443	70.51	3,664	2,088	56.99
Housing - Rental	75,260,581	47,419,439	63.01	11,062	4,875	44.07
Public Facilities	34,999,444	16,310,806	46.60	3,521	60	1.70
Administration	12,923,893	6,325,858	48.95	N/A	N/A	N/A
Acquisition/Disposition	2,596,133	2,259,011	87.01	298	188	63.09
Buyout	2,570,678	1,869,497	72.72	62	2	3.23
Clearance/Demolition	1,306,791	921,291	70.50	3,254	-	0.00
Planning	933,633	933,633	100.00	N/A	N/A	N/A
<b>Totals</b>	<b>\$289,782,242</b>	<b>\$165,525,298</b>	<b>57.12%</b>			

<b>Louisiana</b>						
<b>Activity categories</b>	<b>Budgeted</b>	<b>Disbursed</b>	<b>Percentage</b>	<b>Performance Measures</b>		<b>Percentage</b>
			<b>disbursed</b>	<b>Projected</b>	<b>Actual</b>	<b>accomplished</b>
Compensation	\$9,261,219,091	\$9,212,875,291	99.48	\$178,557	130,095	72.86
Housing - Rental	1,387,458,265	1,072,671,277	77.31	31,547	25,066	79.46
Public Facilities	991,616,117	443,888,639	44.76	588	14	2.38
Administration	675,438,983	473,024,596	70.03	N/A	N/A	N/A
Infrastructure	610,083,867	337,787,843	55.37	3,953,022	-	0.00
Economic Development	496,810,004	370,298,169	74.54	115,276	120,296	104.35
Acquisition/Disposition	376,196,249	321,261,985	85.40	10,663	6,092	57.13
Housing - Other	257,804,091	73,545,810	28.53	5,783	1,171	20.25
Miscellaneous	204,516,934	122,325,156	59.81	4,257,468	37,474	0.88
Planning	169,503,024	55,985,862	33.03	N/A	N/A	N/A
Clearance/Demolition	30,379,994	11,247,364	37.02	1,062,207	-	0.00
Buyout	8,670,700	4,690,700	54.10	27,041	-	0.00
<b>Totals</b>	<b>\$14,469,697,319</b>	<b>\$12,499,602,692</b>	<b>86.38%</b>			

<b>Mississippi</b>						
<b>Activity categories</b>	<b>Budget</b>	<b>Disbursements</b>	<b>Percentage</b>	<b>Performance Measures</b>		<b>Percentage</b>
			<b>disbursed</b>	<b>Projected</b>	<b>Actual</b>	<b>accomplished</b>
Compensation	\$2,007,921,236	\$2,007,338,210	99.97	27,759	27,756	99.99
Infrastructure	1,024,602,320	944,430,178	92.18	1,165,639	-	0.00
Economic Development	\$987,837,353	253,521,206	25.66	7,627	4,626	60.65
Housing - Other	430,968,867	344,155,991	79.86	9,809	5,193	52.94
Public Facilities	405,915,426	296,457,860	73.03	184	72	39.13
Housing - Rental	277,008,094	240,924,562	86.97	5,732	3,766	65.70
Administration	238,279,926	168,256,274	70.61	N/A	N/A	N/A
Miscellaneous	100,334,202	98,672,078	98.34	415,796	281	0.07
Planning	18,885,808	18,034,978	95.49	N/A	N/A	N/A
Acquisition/Disposition	1,891,062	1,706,387	90.23	70,609	-	0.00
Buyout	1,000,000	97,000	9.70	40	-	0.00
Clearance/Demolition	46,430	46,430	100.00	478	-	0.00
<b>Totals</b>	<b>\$5,494,690,724</b>	<b>\$4,373,641,154</b>	<b>79.60%</b>			

<b>Texas</b>						
<b>Activity categories</b>	<b>Budget</b>	<b>Disbursements</b>	<b>Percentage disbursed</b>	<b>Performance Measures</b>		<b>Percentage accomplished</b>
				<b>Projected</b>	<b>Actual</b>	
Infrastructure	\$900,304,806	\$286,092,213	31.78	9,676,457	-	0.00
Housing - Other	693,621,234	508,611,421	73.33	9,387	3,271	34.85
Housing - Rental	275,683,850	207,075,121	75.11	6,621	1,135	17.14
Public Facilities	149,152,600	80,043,681	53.67	347	176	50.72
Administration	104,088,518	80,847,680	77.67	N/A	N/A	N/A
Planning	59,497,689	39,443,082	66.29	N/A	N/A	N/A
Miscellaneous	34,832,008	34,523,371	99.11	328,236	1,064,178	324.21
Clearance/Demolition	25,890,277	20,199,504	78.02	355,877	1,910	0.54
Economic Development	10,251,437	5,036,236	49.13	159	-	0.00
Buyout	1,254,959	774,959	61.75	73	52	71.23
Acquisition/Disposition	134,328	84,939	63.23	1,352	4,057	300.07
<b>Totals</b>	<b>\$2,254,711,706</b>	<b>\$1,262,732,207</b>	<b>56.00%</b>			

## Appendix D

### STATES' DRGR ACTIVITY CATEGORIES AND TYPES

DRGR activity categories and activity types		Budgeted	Disbursed
<b>Acquisition/Disposition total</b>		<b>\$ 380,817,772</b>	<b>\$ 325,312,322</b>
1	Acquisition - general	143,950,855	123,049,418
2	Disposition	225,575,420	194,187,001
3	Relocation payments and assistance	11,291,497	8,075,903
4	<b>Administration total</b>	<b>1,033,396,720</b>	<b>731,109,808</b>
<b>Buyout total</b>		<b>13,496,337</b>	<b>7,432,156</b>
5	Acquisition - buyout of nonresidential properties	4,690,700	4,690,700
6	Acquisition - buyout of residential properties	8,805,637	2,741,456
<b>Clearance/Demolition total</b>		<b>60,073,232</b>	<b>34,848,254</b>
7	Clearance and Demolition	39,924,970	18,601,273
8	Debris removal	20,148,262	16,246,981
<b>Compensation total</b>		<b>11,269,140,327</b>	<b>11,220,213,501</b>
9	Compensation for disaster-related losses (Louisiana and Texas)	5,404,160	2,788,300
10	Payment for compensation and incentives (Louisiana only)	9,255,814,931	9,210,086,991
11	Payment for homeowner compensation (Mississippi only)	2,007,921,236	2,007,338,210
<b>Economic Development total</b>		<b>1,494,898,794</b>	<b>628,855,611</b>
12	Economic Development or recovery activity that creates or retains jobs	1,461,614,114	595,645,865
13	Tourism (Louisiana and Mississippi only)	33,284,680	33,209,746
<b>Housing - Other total</b>		<b>1,493,045,203</b>	<b>1,013,930,186</b>
14	Acquisition of property for replacement housing	21,640,000	7,600,221
15	Construction of new housing	7,104,386	4,180,242
16	Construction of new replacement housing	80,370,776	69,629,987
17	Home ownership assistance (with waiver only)	88,432,233	40,932,155
18	Home ownership assistance to low- and moderate-income	168,518,953	104,798,917
19	Housing incentives to encourage resettlement	1,939,492	1,349,071
20	Rehabilitation or reconstruction of residential structures	1,125,039,363	785,439,593
21	<b>Housing - Rental total</b> affordable rental housing (Road Home excluded)	<b>2,019,513,935</b>	<b>1,572,193,545</b>
<b>Infrastructure total</b>		<b>2,650,987,376</b>	<b>1,637,326,526</b>
22	Construction or reconstruction of streets	607,268,079	170,637,658
23	Construction or reconstruction of water lift stations	719,736	531,537
24	Construction or reconstruction of water or sewer lines or systems	1,121,856,841	778,400,665
25	Dike, dam, or stream-riverbank repairs	109,633,036	7,267,921
26	Privately owned utilities	560,000,000	560,000,000
27	Rehabilitation or reconstruction of a public improvement	251,509,684	120,488,745
<b>Miscellaneous - total</b>		<b>339,683,143</b>	<b>255,520,605</b>
28	Code enforcement	29,115,963	25,460,858
29	Public services	230,567,180	150,059,747
30	Windpool mitigation (Mississippi only)	80,000,000	80,000,000
<b>Planning - total</b>		<b>248,820,154</b>	<b>114,397,554</b>
31	Capacity building for nonprofit or public entities	5,491,625	
32	Planning	243,328,529	114,397,554
<b>Public Facilities - total</b>		<b>1,600,622,572</b>	<b>855,639,971</b>
33	Acquisition, construction, or reconstruction of public facilities	222,712,858	135,049,329
34	Construction of buildings for the general conduct of government	33,065,512	12,433,132
35	Rehabilitation or reconstruction of other nonresidential structures	60,057,314	42,152,790
36	Rehabilitation or reconstruction of public facilities	1,284,786,888	666,004,720
<b>Grand totals</b>		<b>\$ 22,604,495,565</b>	<b>\$ 18,396,780,039</b>

## Appendix E

### STATE COMPLIANCE WITH LOW- AND MODERATE- INCOME PERSON REQUIREMENT

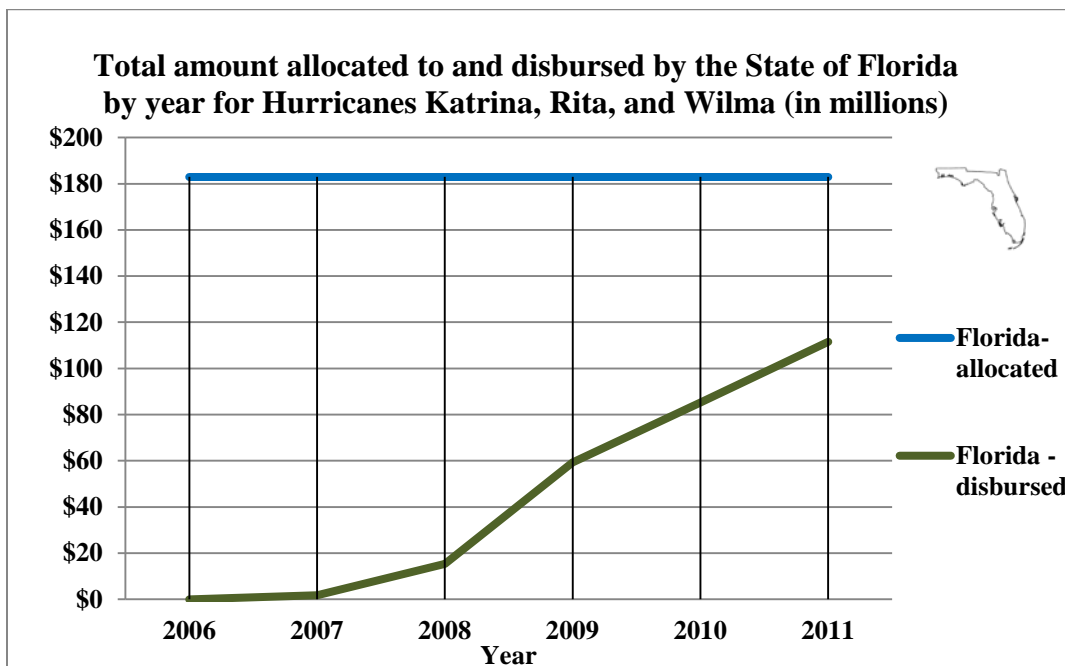
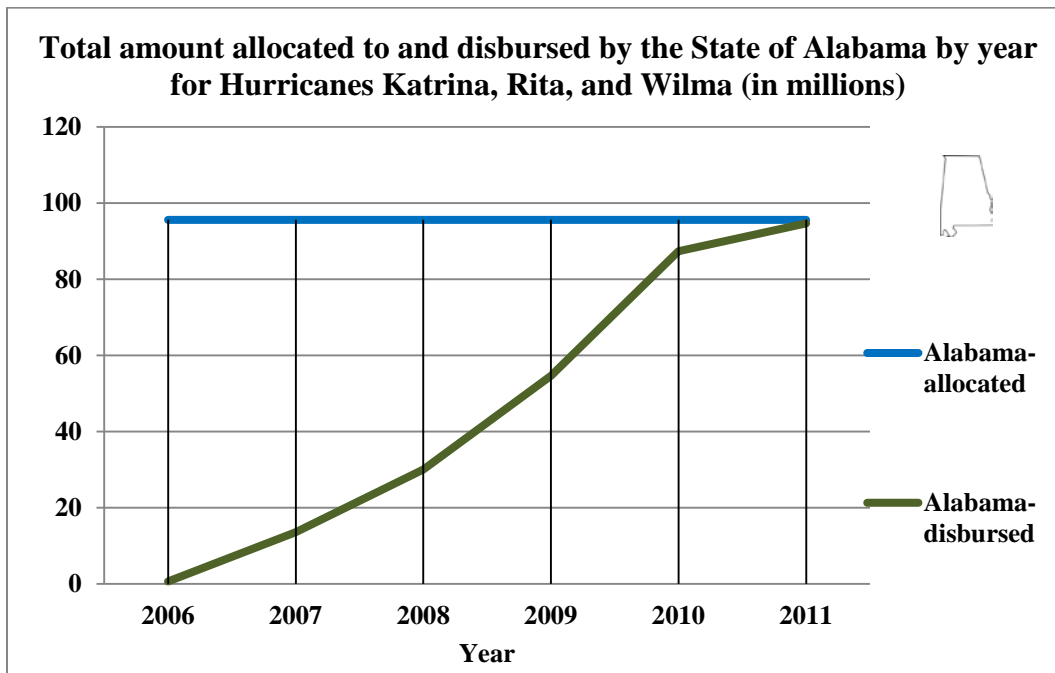
State	Grants	Low & moderate	Slum or blight	Urgent need	Totals	Low & moderate program income	All program income	Low & moderate percent <sup>1</sup>
AL	B-06-DG-01-0001	\$64,527,250	\$1,919,739	\$4,926,055	\$71,373,044	n/a	n/a	90%
	B-06-DG-01-0002	16,061,825	1,129,395	4,004,305	21,195,525	n/a	n/a	76%
FL	B-06-DG-12-0001	54,443,842	921,291	6,268,296	61,633,429	n/a	n/a	88%
	B-06-DG-12-0002	58,211,750	n/a	4,798,089	63,009,839	n/a	n/a	92%
	B-08-DI-12-0001	24,031,302	n/a	5,410,770	29,442,072	n/a	n/a	82%
LA	B-06-DG-22-0001	3,069,128,866	139,007,096	2,160,823,131	5,368,959,093	\$64,586	\$2,935,860	57%
	B-06-DG-22-0002	2,298,482,977	6,567,071	1,439,995,225	3,745,045,273	2,644	517,027	61%
	B-08-DG-22-0003	1,351,030,939	186,660,400	878,786,258	2,416,477,597	n/a	303,058	56%
	B-08-DI-22-0001	153,713,276	1,187,639	169,319,662	324,220,577	n/a	n/a	47%
MS	B-06-DG-28-0001	1,364,606,710	199,599,008	2,275,252,277	3,839,457,995	8,184	44,669	36%
	B-06-DG-28-0002	282,954,760	n/a	13,623,225	296,577,985	n/a	n/a	95%
	B-08-DI-28-0001	2,264,462	n/a	697,669	2,962,131	n/a	n/a	76%
TX	B-06-DG-48-0001	44,347,878	417,550	20,446,498	65,211,926	n/a	n/a	68%
	B-06-DG-48-0002	373,438,991	n/a	52,265,494	425,704,485	n/a	n/a	88%
	B-08-DI-48-0001	381,704,773	519,803	190,930,948	573,155,524	3,000	3,000	67%
	<b>Totals</b>	<b>\$9,538,949,601</b>	<b>\$537,928,992</b>	<b>\$7,227,547,902</b>	<b>17,304,426,495</b>	<b>\$78,414</b>	<b>\$3,803,614</b>	

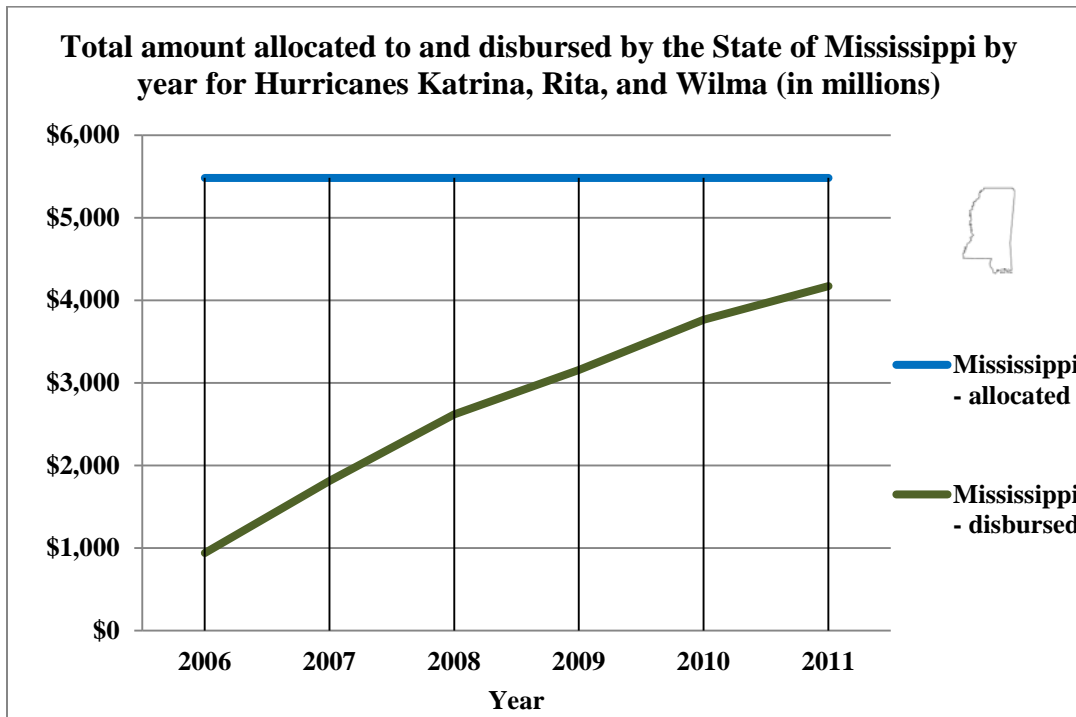
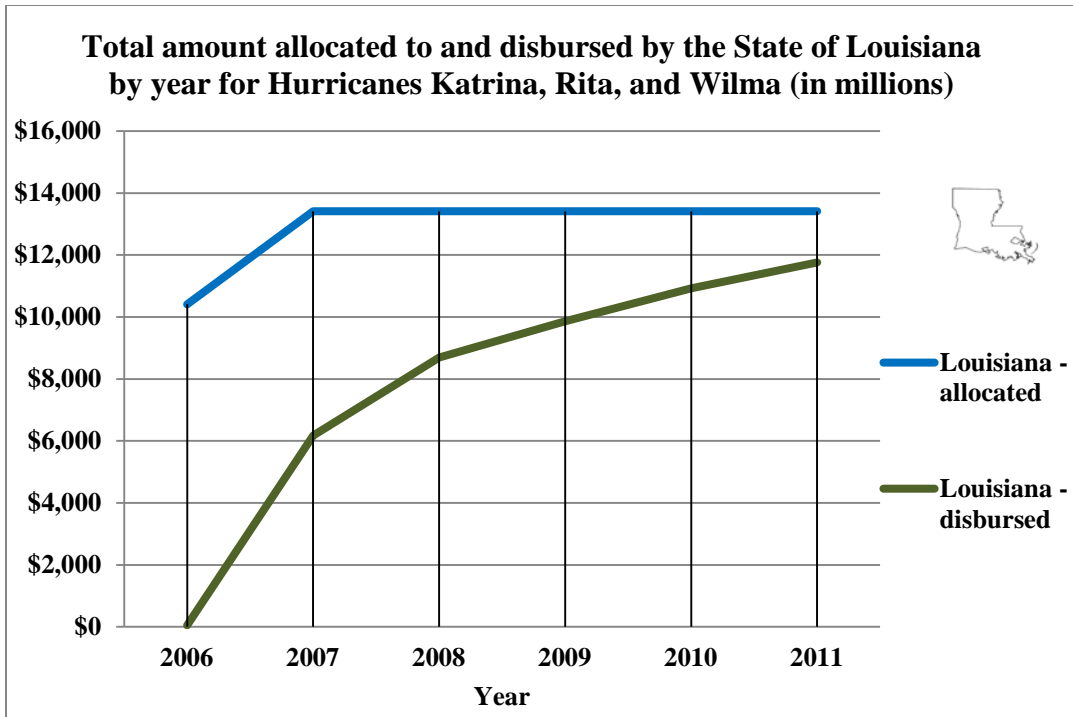
<sup>1</sup> To calculate the low and moderate percentage, the following formula was used:  
(low and moderate plus low and moderate program income (if any)), divided by (totals plus all program income)



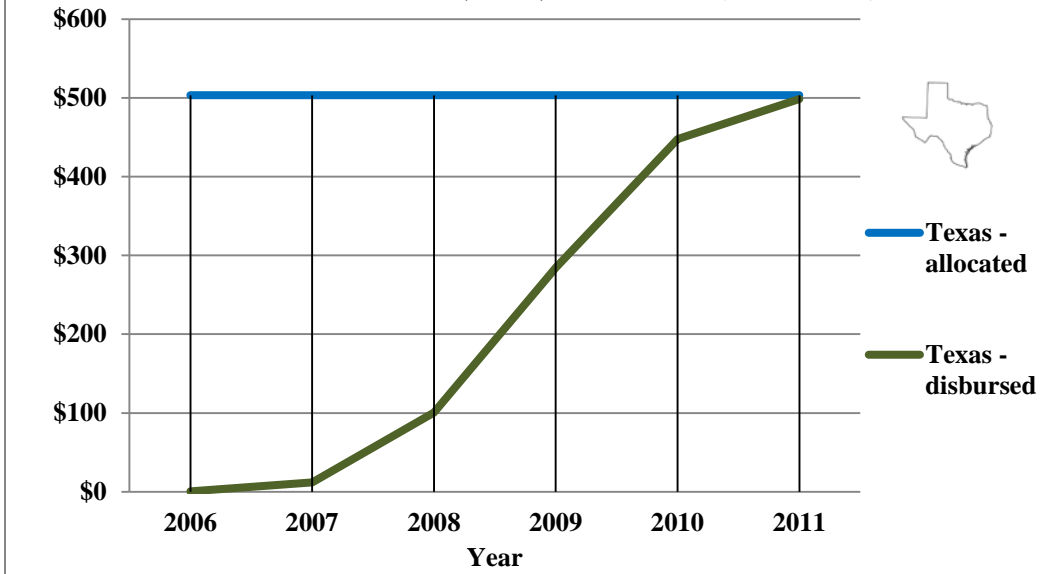
## Appendix F

### HURRICANES KATRINA, RITA, AND WILMA GRANTS ALLOCATION AND EXPENDITURE PROGRESSION GRAPHS BY STATE AS OF DECEMBER 2011



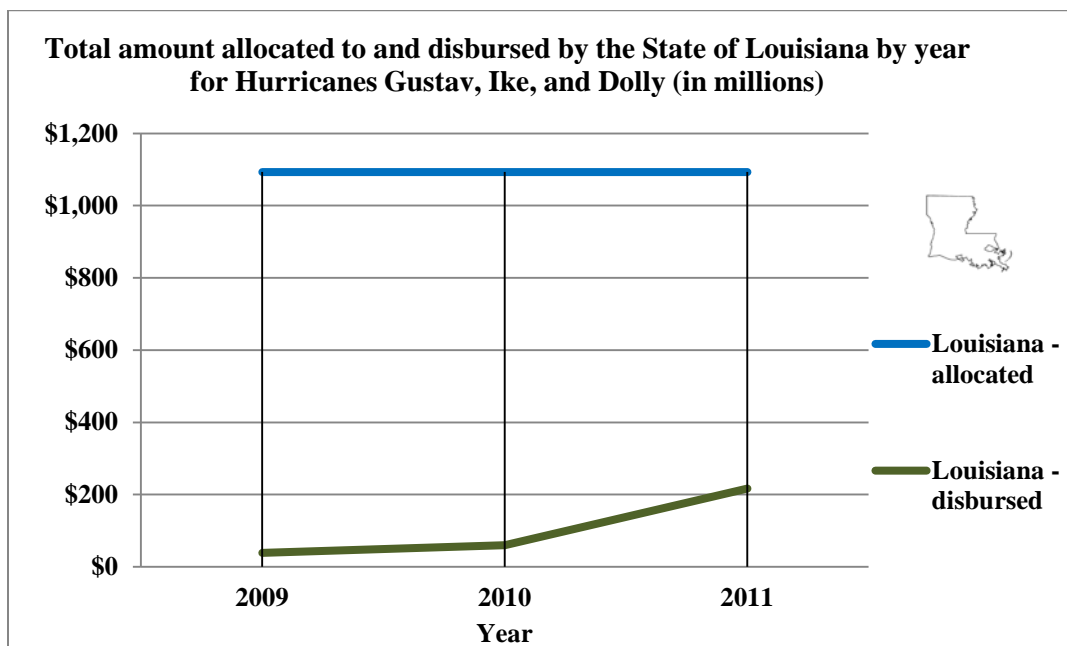
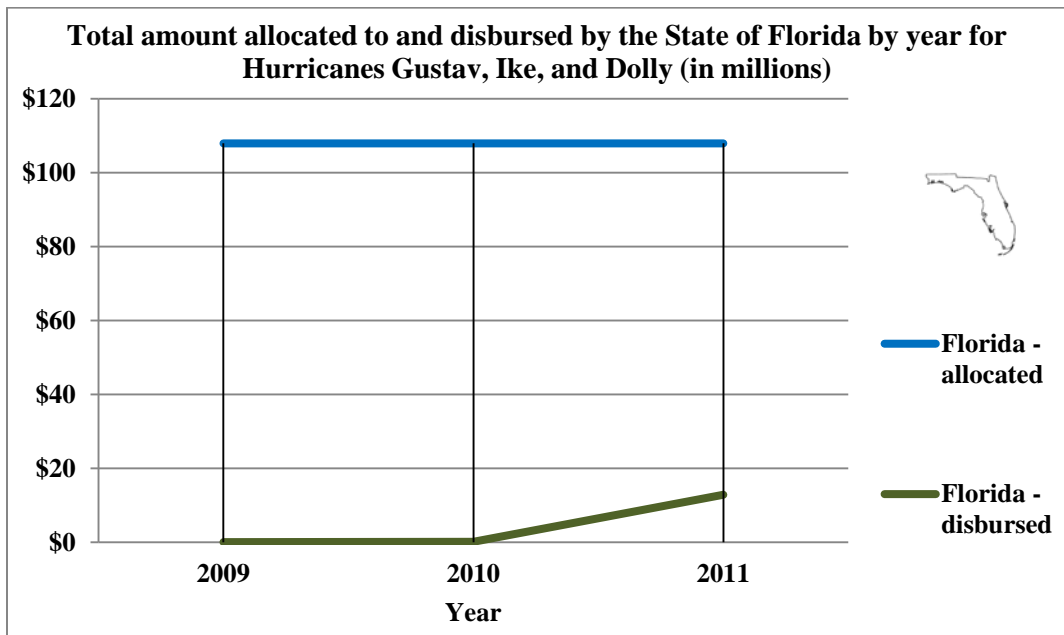


**Total amount allocated to and disbursed by the State of Texas by year for Hurricanes Katrina, Rita, and Wilma (in millions)**

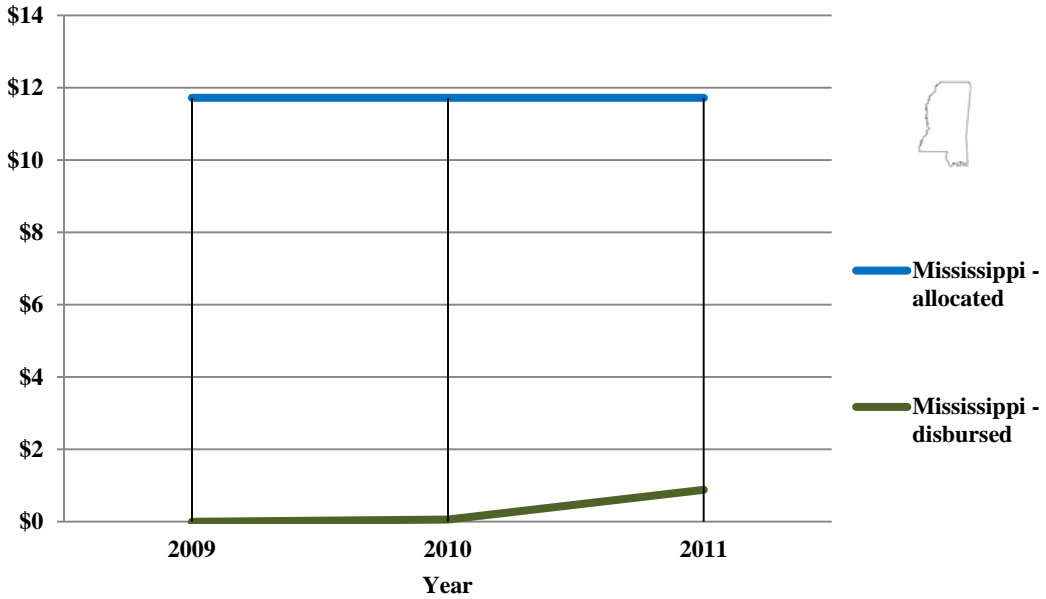


## Appendix G

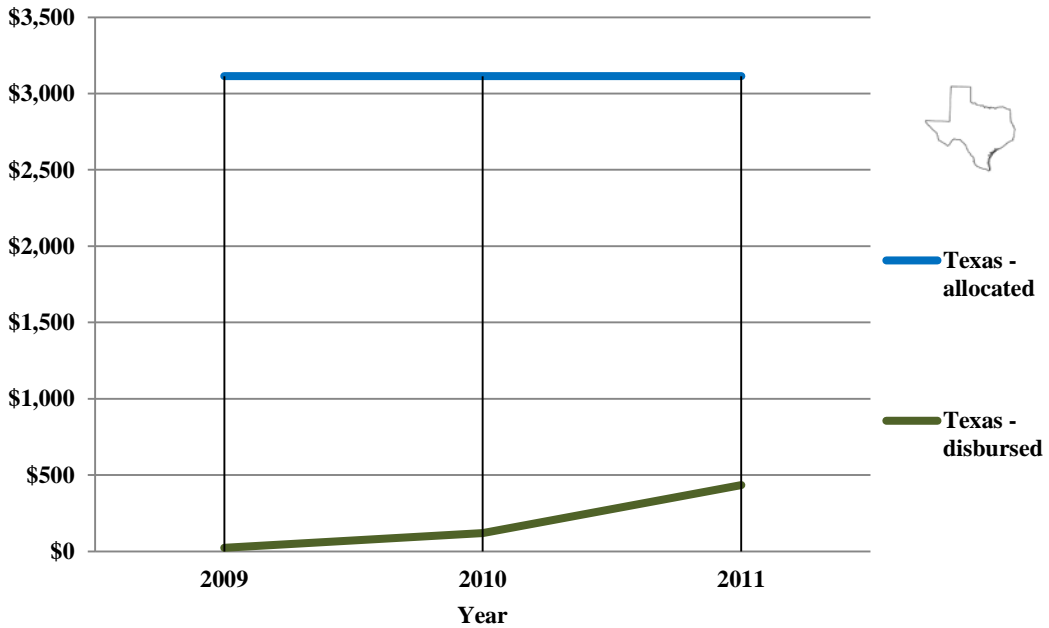
### HURRICANES GUSTAV, IKE, AND DOLLY GRANT ALLOCATION AND EXPENDITURE PROGRESSION GRAPHS BY STATE AS OF DECEMBER 2011



**Total amount allocated to and disbursed by the State of Mississippi by year for Hurricanes Gustav, Ike, and Dolly (in millions)**



**Total amount allocated to and disbursed by the State of Texas by year for Hurricanes Gustav, Ike, and Dolly (in millions)**



## Appendix H

### LIST OF HUD OIG HURRICANE DISASTER RECOVERY AUDIT REPORTS

Report number	Issue date	Report title	
1	2007-AO-1001	5/7/2007	The State of Mississippi's Homeowner's Assistance Grant Program Did Not Appropriately Calculate Grants and Monitor the Program
2	2008-AO-1001	12/19/2007	State of Louisiana, Baton Rouge, Louisiana, Road Home Housing Program, ICF Did Not Always Provide Contract Deliverables As Required
3	2008-AO-1002	1/30/2008	State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination
4	2008-AO-1801	3/6/2008	The State of Mississippi's and/or Its Contractor's Procedures for and Controls over the Homeowner's Assistance Grant Program Generally Ensured Eligibility and Prevented Duplication of Benefits
5	2008-AO-1003	4/25/2008	The Mississippi Development Authority, Jackson Mississippi, Homeowners Assistance Program Contract Included Ineligible Provisions
6	2008-AO-1005	8/7/2008	State of Louisiana, Road Home Program, Did Not Ensure That All Additional Compensation Grant Applicants Were Eligible
7	2009-FW-1004	1/14/2009	The Texas Department of Housing and Community Affairs Properly Administered Supplemental I Disaster Recovery Program Funds
8	2009-AO-1001	5/5/2009	State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible to Receive Additional Compensation Grants
9	2009-AO-1002	5/5/2009	State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible
10	2009-AO-1801	6/12/2009	A Few Possible Duplicate Payments May Have Occurred under Phase II of the State of Mississippi's Homeowner Assistance Program
11	2009-AO-1802	7/31/2009	The State of Mississippi Generally Ensured That Applicants Were Eligible under Phase II of Its Homeowner Assistance Program
12	2009-AO-1003	9/23/2009	Louisiana Land Trust, As the State of Louisiana's Subrecipient, Did Not Always Ensure That Properties Were Properly Maintained
13	2009-FW-1016	9/30/2009	The Texas Department of Housing and Community Affairs' Disaster Recovery Action Plan Needs Improvement
14	2010-AO-1001	12/15/2009	Mississippi Development Authority, Jackson, Mississippi, Did Not Always Ensure Compliance under Its Public Housing Program.
15	2010-AO-1002	1/4/2010	State of Louisiana, Baton Rouge, LA, Did Not Always Ensure Compliance Under Its Recovery Workforce Training Program
16	2010-AO-1003	4/30/2010	The State of Louisiana's, Baton Rouge, LA, Subrecipient Generally Ensured Costs Were Supported Under Its Tourism Marketing Program
17	2010-AO-1004	6/22/2010	The Mississippi Development Authority, Jackson, MS, Generally Ensured That Contracts Were Procured in Accordance With Its Disaster Recovery Program Policies and Procedures
18	2010-FW-1005	7/20/2010	The Texas Department of Housing and Community Affairs Did Not Fully Follow Requirements or Best Practices in the Acquisition of Its Disaster Recovery-Funded Program Management Firm

<b>Report number</b>	<b>Issue date</b>	<b>Report title</b>	
19	2010-AO-1005	8/4/2010	The State of Louisiana's, Baton Rouge, LA, Subrecipient Did Not Always Meet Agreement Requirements When Administering Projects Under the Orleans Parish Long Term Community Recovery Program
20	2010-AO-1006	9/30/2010	The State of Alabama, Montgomery AL, Generally Ensured That the City of Bayou La Batre Properly Administered Its Hurricane Katrina Community Development Block Grant Disaster Funds Program
21	2010-AO-1007	9/30/2010	The State of Alabama, Montgomery, AL, Generally Ensured Mobile Administered Its Hurricane Katrina Community Development Block Grant Disaster Funds Program in Accordance With HUD Requirements
22	2011-AO-1001	10/28/2010	The State of Louisiana, Baton Rouge, LA, Generally Ensured That Disbursements to Small Rental Property Program Participants Were Eligible and Supported
23	2011-AO-1002	10/29/2010	The State of Louisiana, Baton Rouge, LA, Did Not Always Ensure That Disbursements Under Its First Time Homebuyer Program Complied With Federal Regulations and Program Requirements
24	2011-FW-1006	1/26/2011	The Texas Department of Housing and Community Affairs Generally Ensured That Its Program Management Firm Complied With Requirements
25	2011-AO-1005	4/18/2011	The State of Mississippi, Jackson, Generally Ensured That Disbursements to Program Participants Were Eligible and Supported
26	2012-FW-1005	3/7/2012	The State of Texas Did Not Follow Requirements for Its Infrastructure and Revitalization Contracts Funded With CDBG Disaster Recovery Program Funds