



OFFICE of  
**INSPECTOR GENERAL**  
★ ★ ★ ★  
UNITED STATES DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT

# HUD's Oversight of CDBG-DR Grantees' Use of Program Income

**Audit Report Number: 2023-FW-0002**

**May 17, 2023**

To: Tennille S. Parker  
Director, Office of Disaster Recovery, ODR

*//signed//*

From: Kilah S. White  
Assistant Inspector General for Audit, Office of Inspector General, GA

Subject: HUD's Oversight of CDBG-DR Grantees' Use of Program Income

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of HUD's oversight of Community Development Block Disaster Recovery (CDBG-DR) grantees' use of program income.

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, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

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

# Highlights

## HUD's Oversight of CDBG-DR Grantees' Use of Program Income | 2023-FW-0002

### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD), oversight of Community Development Block Grant Disaster Recovery (CDBG-DR) grantees' use of program income. We initiated this audit in accordance with our goal of ensuring and promoting accountability and effectiveness in disaster response and recovery. Our audit objective was to determine whether HUD ensured that program income generated from disaster funds awarded to CDBG-DR grant recipients was used to positively impact and support disaster recovery in affected areas and to benefit program beneficiaries.

### What We Found

HUD generally ensured that its CDBG-DR grantees used program income generated from disaster funds to positively impact and support disaster recovery in affected areas and to benefit program beneficiaries. HUD's grantees maintained adequate documentation for most program income vouchers tested, supporting that program income was generally used in accordance with Federal regulations and positively impacted the program. However, some grantees did not always (1) spend a substantial amount of their program income funds before using their CDBG-DR funds and (2) submit Federal financial reports (FFR) quarterly as required. Opportunities existed for HUD to improve its oversight of program income funds to reduce risks related to the reporting, reconciling, and spending of program income. As a result, (1) HUD could not effectively track the status of grantee financial data related to program income, and (2) HUD did not have reasonable assurance that it provided accurate grant data reports to Congress.

### What We Recommend

We recommend that HUD's Office of Disaster Recovery (1) require grantees to support or repay more than \$2.5 million for the 9 files that did not have adequate supporting documentation for expenditures; (2) work with its grantee to resolve or correct program income balances for three grants totaling \$79 million, \$18 million, and 12 million, respectively; (3) develop and implement controls to ensure that program income balances are identified and corrected; (4) develop and implement controls to ensure that untimely reports are identified and corrected; (5) Establish a mechanism to train grantees and HUD staff on existing guidance regarding supporting documentation for expenditures, FFRs, and program income balances on a recurring basis. Additionally, provide guidance and establish recurring training for HUD staff to monitor grantees for program income and submission of the FFRs; (6) implement quality control procedures to ensure that HUD staff completes the action plan and quarterly performance review checklists; (7) develop and implement controls to ensure that grantees' policies and procedures related to program income are adequate; and (8) provide training to grantees regarding the reporting, tracking, and expenditure of program income.

---

# Table of Contents

<b>Background and Objective</b> .....	<b>1</b>
<b>Results of Audit</b> .....	<b>3</b>
HUD Generally Ensured that Grantees Used Program Income to Support Disaster Recovery, But Some Did Not Always Comply with Program Income Requirements .....	3
<b>Scope and Methodology</b> .....	<b>9</b>
<b>Appendixes</b> .....	<b>11</b>
Appendix A – Schedule of Questioned Costs .....	11
Appendix B – Auditee Comments and OIG’s Evaluation.....	12
Appendix C – Universe of Disaster Grants as of December 2021 .....	17

## Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant Disaster Recovery (CDBG-DR) funds are authorized under Title I of the Housing and Community Development Act of 1974 as amended. CDBG-DR funds are supplemental funds appropriated by Congress to HUD's Office of Community Planning and Development (CPD), which then allocates and awards the funds to grantees impacted by a presidentially declared disaster. CDBG-DR funds are used to provide disaster relief, long-term recovery, restoration of infrastructure, and economic revitalization. The CDBG-DR program uses the CDBG program as a framework, which is modified by one or more Federal Register notices for each supplemental act.

Program income is gross income received by the grantee that is directly generated from the use of CDBG-DR funds and must be used in accordance with applicable Federal requirements. Grantees' CDBG-DR programs that provide loans (for example, housing rehabilitation or economic development assistance) or involve real property most often generate program income. Program income that is paid to the grantee or received by the grantee is treated as additional CDBG-DR funds and must be used by the grantee or distributed to units of general local government in accordance with Federal rules and regulations and the grantee's action plan for disaster recovery. Grantees must submit an action plan that identifies activities slated to generate program income. From 2009 through December 31, 2021, HUD CPD awarded more than \$40 billion in CDBG DR funds for 33 grants that earned program income totaling more than \$432 million (See appendix C).

All CDBG-DR grants are assigned to HUD CPD field offices for oversight. However, for high-risk grants, including grants of \$500 million or more, CPD's Office of Disaster Recovery (ODR) is the assigned field office. CPD field offices are assigned responsibility for grants of less than \$500 million, although these grants may be assigned to ODR if there are specific and significant risk or workload considerations. ODR's regional staff oversees the grants administered by ODR and provides technical assistance, program guidance, and support to the field office staff. Both ODR and CPD field office staffs monitor these CDBG-DR grants and complete monitoring visits on some grants. CPD uses action plan, quarterly performance report (QPR), and monitoring checklists to review how the grantee will manage program income, the purposes for which it may be used, and the grantee's use of program income. Further, the Office of Management and Budget requires CPD to collect financial data on the Federal financial report (FFR)<sup>1</sup> to track the status of financial data tied to a particular Federal grant award.

Developed by HUD specifically for CDBG-DR, the Disaster Recovery Grant Reporting system (DRGR) allows each CDBG-DR grantee to identify activities funded under its published action plan and associated budgets and performance goals. DRGR is a key component of HUD's disaster recovery oversight. CPD staff uses it for three main tasks: (1) review and approval of grantee DRGR action plans, (2) review and approval of QPRs, and (3) the creation of data-driven reports. It is also used by CPD staff to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor program compliance.

HUD required its CDBG-DR grantees to use DRGR to show the program income received and spent and the balances remaining for each grant. HUD also required grantees to use DRGR to report program

---

<sup>1</sup> The Federal Financial Report (FFR) is also known as Standard Form (SF) form 425.

income (1) received by creating receipts and (2) spent by creating vouchers. Using DRGR, grantees are required to submit QPRs and FFRs, which include program income, no later than 30 days after the end of each calendar year quarter for each CDBG-DR grant. To support the expenditure of program income, grantees must establish and maintain sufficient records and ensure that costs are adequately documented to be allowable under Federal awards. Additionally, grantees must disburse program income for eligible activities before additional cash withdrawals are made from the U.S. Treasury.<sup>2</sup>

Our audit objective was to determine whether HUD ensured that program income generated from disaster funds awarded to CDBG-DR grant recipients was used to positively impact and support disaster recovery in affected areas and to benefit program beneficiaries.

---

<sup>2</sup> Regulations at 24 CFR 570.504 state that if the recipient chooses to retain program income, that program income must be disposed of as follows: substantially all other program income must be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury.

## Results of Audit

### Finding: HUD Generally Ensured that Grantees Used Program Income to Support Disaster Recovery, But Some Did Not Always Comply with Program Income Requirements

HUD's CDBG-DR grantees generally used program income generated from disaster funds to positively impact and support disaster recovery in affected areas and to benefit program beneficiaries. HUD's grantees maintained adequate documentation for disaster recovery efforts for most program income vouchers tested, supporting that program income was generally used in accordance with Federal regulations and positively impacted the program. However, some grantees did not always (1) spend a substantial amount of their program income funds before using their CDBG-DR funds and (2) submit FFRs quarterly as required. Opportunities existed for HUD to improve oversight of program income funds to reduce risks related to the reporting, reconciling, and spending of program income. As a result, (1) HUD could not effectively track the status of grantee financial data related to program income, and (2) HUD did not have reasonable assurance that it provided accurate grant data reports to Congress.

### HUD Ensured That Grantees Generally Supported Program Income Vouchers

We reviewed 80 program income vouchers, which consisted of 14 grants and 11 grantees. For 71 vouchers (88.7 percent), with disbursements totaling more than \$44.8 million, the grantees (1) used program income in accordance with Federal regulations to support disaster recovery efforts, (2) effectively used the funds to positively impact the program results and program beneficiaries, and (3) maintained adequate documentation to support how they used the program funds.

For 9 vouchers (11 percent), with disbursements totaling more than \$2.5 million, the grantees did not provide adequate documentation to support how they used program income as required.<sup>3</sup> For two vouchers, the grantee did not provide any documentation to support the vouchers despite multiple requests. For the other seven vouchers, the grantee did not have invoices supporting the voucher amounts included in the documentation it provided. Although additional documentation was provided by the grantees after we followed up, the documentation for these seven vouchers was inadequate. When we notified HUD that its grantees did not provide adequate supporting documentation for these vouchers, HUD stated that it would work with each grantee to resolve the issues identified.

### Compliance With Program Income Balance Requirements

Of the 14 grants reviewed,<sup>4</sup> 6 grants initially reported in DRGR that they had not disbursed more than \$121 million of the program income received (table 1), although HUD required grantees to disburse a

---

<sup>3</sup> According to 24 CFR 570.506 and Federal Registers applicable to each grant, each recipient must establish and maintain sufficient records. Regulations at 2 CFR 200.403 state that except as otherwise authorized by statute, costs must meet the following general criteria to be allowable under Federal awards: be adequately documented.

<sup>4</sup> A total of 11 grantees administered the 14 grants reviewed.

substantial amount of program income funds before spending CDBG-DR grant funds for any other activity.<sup>5</sup>

**Table 1. Grants with program income balances as of December 2021**

Grant	Grant amount	Program income received	Program income disbursed	Balance	Percentage disbursed
B-06-DG-22-0002	\$4,200,000,000	\$205,799,049	\$120,427,613	\$85,371,436	59
B-08-DI-22-0001	1,093,212,571	34,506,975	18,141,037	6,365,938	53
B-06-DG-22-0001	6,210,000,000	27,297,750	9,410,112	\$17,887,638	34
B-12-MT-01-0002	16,634,702	3,173,848	2,056,632	1,117,216	65
B-13-US-17-0001	83,616,000	2,005,028	1,017,241	987,787	51
B-12-MT-38-0001	67,575,964	364,425	190,052	174,372	52
<b>Total</b>				<b>121,904,387</b>	

HUD became aware of these program income balances during our audit and took action to assist grantees with correcting three of the six grant balances by having grantees make data entry corrections in DRGR. For two of the three corrected grants, the grantees needed to update their program income receipts and balances in DRGR, and for the other grant, the grantee needed to correct an erroneous voucher submission. However, as of November 8, 2022, the three remaining grants, for one grantee, had substantial program income balances, totaling more than \$109 million (table 2).<sup>6</sup>

**Table 2. Grants with program income balances as of November 2022**

Grant	Grant amount	Program income received	Program income disbursed	Balance	Percentage disbursed
B-06-DG-22-0002	\$4,200,000,000	\$223,814,658	\$144,632,987	\$79,181,671	64.6
B-08-DI-22-0001	1,093,212,571	30,222,085	18,178,524	12,043,561	60.1
B-06-DG-22-0001	6,210,000,000	29,601,076	11,413,549	18,187,527	38.5
B-12-MT-01-0002	16,634,702	3,173,848	3,173,323	525	99.9
B-13-US-17-0001	83,616,000	2,118,378	2,118,378	0.00	100
B-12-MT-38-0001	67,575,964	197,143	197,143	0.00	100
<b>Total</b>				<b>109,413,284</b>	

<sup>5</sup> Regulations at 24 CFR 570.504 state that if the recipient chooses to retain program income, that program income must be disposed of as follows: (ii) substantially all other program income must be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury.

<sup>6</sup> For grant number B-12-MT-01-0002, we determined that a substantial amount was spent and the amount remaining was not considered a material balance.



HUD stated that it would work with the grantee and agreed to provide additional technical assistance as needed. However, for the three grants with substantial balances, HUD did not address whether it had corrected the balances or provided an explanation of the how or why the issue occurred. We note that although HUD did correct some of the balances after our notification, HUD’s oversight had not identified these discrepancies. Enhancing oversight of program income balances would provide HUD with more accurate data regarding grantees’ use of program income, which are relied on by internal and external stakeholders.

### Submission of Required Federal Financial Reports<sup>7</sup>

Based on our review of the 11 grantees in DRGR, 6 of the grantees did not always submit their quarterly FFRs within 30 calendar days after the last day of the calendar year quarter as required.<sup>8</sup> This report is required to collect financial data to track the status of financial data tied to each Federal grant award, including program income.

Although DRGR generates the FFR, which pulls key data from DRGR and prepopulates some fields in the report, HUD required grantees to verify the accuracy of, complete all mandatory fields, and then submit the FFR in DRGR. However, as of November 2022, these six grantees had not submitted their FFRs for one or more quarters, resulting in the FFRs’ having been submitted from 184 to 3,380 calendar days late<sup>9</sup> (table 3). In addition, when asked, three grantees did not know that the FFR existed. Without these reports, HUD could not use this tool to track the status of the grantees’ financial data tied to the grant awards.

**Table 3. Missing Federal financial reports**

Grantee number	Quarters missing	Calendar days late	Description of quarters missing
1	1	274	2021 (4th)
2	2	184-549	2021 (1st); 2022 (1st)
3	3	3,196-3,380	2013 (2nd-4th)
4	5	184-549	2021 (1st-4th); 2022 (1st)
5	7	184-823	2020 (3rd-4th); 2021 (1st-4th); 2022 (1st)
6	16	184-1554	2018 (2nd-4th); 2019 (1st-4th); 2020 (1st-4th); 2021 (1st-4th); 2022 (1st)

<sup>7</sup> The Federal Financial Report (FFR) is also known as Standard Form (SF) form 425.

<sup>8</sup> Regulations at 2 CFR 200.328 and Federal Registers applicable to each grant. (For example – Federal Register Notice 71 FR 7666 - HUD requires each grantee to report to HUD quarterly using DRGR.) These reports are due no later than 30 calendar days after the last day of a calendar year quarter.

<sup>9</sup> As of November 2022.

## HUD's Oversight of Program Income Requirements Could Be Improved

We identified the following areas of opportunities for HUD to improve its oversight of program income:

- Activities for monitoring program income
- Improved grantee policies and procedures
- Training related to program income.

### Monitoring of Program Income

HUD's oversight of its CDBG-DR grants, including program income, consists of (1) monitoring visits and (2) action plan and QPR checklists. Our review of these oversight mechanisms either did not identify the conditions that we identified related to program income or were not implemented.

#### Monitoring Visits

Between 2017 and 2021, HUD completed 21 monitoring visits associated with 11 of 14 grants included in our review. We reviewed the monitoring reports and associated monitoring documentation and exhibits for the 21 monitoring visits to determine whether HUD reviewed program income during these monitoring visits. Based on our review, HUD completed a review of program income during 12 of the visits. However, the monitoring visits did not always include a review of supporting documentation for program income disbursements, FFR submissions, or the program income balances' statuses. In addition, we identified the issues discussed above with 7 of 11 grants, although HUD monitored the grants during the period in which the issues occurred.

#### Action Plan and Quarterly Performance Review Checklists

Although HUD developed action plan and QPR checklists to aid in its monitoring reviews, which included a review of program income, it did not always complete or document these checklists. The action plan and QPR review checklists included questions related to (1) estimating expected program income; (2) budgeting for projects that equaled the grant amount, including program income; (3) establishing program income accounts; (4) the reasonableness of program income received; (5) the amount of program income drawn down compared to the total received; (6) the use of program income before grant funds; and (7) the eligibility of uses for program income

According to HUD, it published the action plan and QPR checklists in May 2012, and these checklists did not apply to grants executed before May 2012. Therefore, these checklists applied to 5 of the 14 grants reviewed in our sample. Our review of 100 QPR checklists from 2017 to 2021 for these 5 grants found deficiencies with 98. Specifically, HUD (1) did not complete the checklist for 93, (2) did not have a checklist for 3, and (3) partially completed the checklist for 2. Our review of 63 action plan checklists from 2017 to 2021 for these 5 grants determined that HUD (1) did not complete 59 and (2) partially completed 4. HUD could not show that it performed a complete and comprehensive review of its grantees' program income.

## Grantees' Policies and Procedures Could Be Improved

Of the 11 grantees sampled, we identified 5 that had outdated, weak, or nonexistent policies and 2 that did not follow their own policies, which contributed to the program income conditions noted above. According to HUD, it performs a certification of procedures to ensure effective grant management before grant agreement execution. The financial management and grant compliance certification, as required by the Federal Register notice <sup>10</sup>, must be submitted to HUD before action plan approval. With this certification, the grantee must provide adequate policies and procedures to ensure the timely expenditure of funds, including how the grantee will track and document expenditures and manage program income. Our review of the policies and procedures for these 11 grantees found that 5 had deficiencies. Specifically,

- One grantee had an outdated policy. Specifically, although the policy's effective dates were shown as July 2020 to June 30, 2022, the policy referenced the August 2017 DRGR Manual 2.0 throughout. However, HUD updated the DRGR manual to a 3.0 version effective August 2021. Without using the correct version of the DRGR manual, the grantee's policy did not include the updated guidance needed to effectively administer its grant, including program income.
- One grantee did not provide a policy after multiple requests. We concluded that the grantee either did not have a policy or the grantee did not have a policy readily available for use.
- One grantee's policy had weaknesses since it did not reference any Federal regulations to ensure compliance with program income requirements, such as the issues discussed above.
- Two grantees' policies did not include requirements for the expenditure of program income.

These five grantees' certification of its policies and procedures to HUD did not identify these issues before the action plan was approved. A more thorough adequacy review of policies and procedures would contribute to ensuring effective management of program income. Without adequate policies and procedures related to program income, HUD could not ensure that program income generated from disaster funds awarded to CDBG-DR grant recipients was always used to positively impact and support disaster recovery in affected areas and to benefit program beneficiaries.

## Grantees Could Benefit From Regular Program Income Training

During our interviews with 11 grantees, 8 stated either that (1) program income was a complicated aspect of the CDBG-DR regulations, (2) HUD could improve its formal training related to program income, or (3) HUD could improve the timing of its training as training was often provided after the grantees' CDBG-DR programs began. When we asked HUD about guidance provided to grantees related to program income, HUD stated that it posted program income trainings on the HUD exchange. When we reviewed the trainings on the HUD exchange, there was only one training from 2015 related to program income, which provided information on completing the FFRs. We noted that the HUD exchange did not have thorough and consolidated guidance available related to program income or any trainings that provided detailed information regarding accounting for, tracking, or reconciling program income.

---

<sup>10</sup> 83 Federal Register 5844.

## Recommendations

We recommend that the Director for HUD's Office of Disaster Recovery

- 1A. Require grantees to support or repay to its program \$2,551,375, from nonfederal funds, for the 9 vouchers that did not have adequate supporting documentation for expenditures.
- 1B. Work with its grantee to resolve or correct program income balances for the three grants that had program income balances outstanding.
- 1C. Develop and implement controls to ensure that program income balance discrepancies are identified and corrected.
- 1D. Develop and implement controls to ensure that untimely FFRs are identified and corrected.
- 1E. Establish a mechanism to train grantees and HUD staff on existing guidance regarding supporting documentation for expenditures, FFRs, and program income balances on a recurring basis. Additionally, provide guidance and establish recurring training for HUD staff to monitor grantees for program income and submission of the FFRs..
- 1F. Implement quality control procedures to ensure that HUD staff completes the action plan and QPR checklists.
- 1G. Develop and implement controls to ensure that grantees' policies and procedures related to program income are adequate.
- 1H. Provide training to grantees regarding the reporting, tracking, and expenditure of program income.

## Scope and Methodology

We performed our audit remotely from June through November 2022. Our audit scope covered the CDBG-DR program income disbursements from January 1, 2009, through December 31, 2021, and CPD monitoring conducted on these grants from January 1, 2017, through December 31, 2021. We expanded our scope to November 2022 to include updated program income balance data to accomplish our audit objective.

To accomplish our objective, we reviewed

- Applicable laws, regulations, Federal Registers, guidance, policies and procedures, training materials, and handbooks.
- HUD's websites to obtain background information and researched the web for any applicable media coverage.
- Grant agreements for those grants that received program income and applicable program income waivers.
- The action plans to determine whether program income activities were included in DRGR-approved action plans.
- Documentation maintained by grantees to support their program income disbursements.
- HUD's monitoring reports and exhibits, QPR checklists, and action plan review checklists to determine whether HUD adequately monitored grantees' use of program income.
- Grantees' policies and procedures to determine whether HUD ensured that grantees had adequate program income policies and procedures in place.
- DRGR data to evaluate the amount of disaster funds disbursed, the amount of program income generated from disaster funds, and whether HUD ensured that grants' balances were used before other program funds and reconciled and tracked program income.

We also

- Researched and reviewed prior work completed by HUD's Office of Inspector General (OIG) and other entities related to the topic area.
- Obtained FFRs from DRGR to determine whether grantees submitted the reports quarterly as required.
- Identified potential program income that grantees anticipated to earn in the future.
- Interviewed HUD ODR staff to gain an understanding of program income and the processes for oversight.
- Interviewed 11 grantees to gain an understanding of their processes for spending and reporting program income and HUD's oversight and guidance related to program income and documented an assessment of grantees' interview responses.

From 2009 through December 31, 2021, the 23 grantees that administered 33 grants, which generated program income, submitted 3,458 CDBG-DR unique program income vouchers totaling more than \$287 million. We employed a Neyman Optimized stratified random sample of 80 vouchers for auditing among the audit universe of 3,458 CDBG-DR vouchers. We designed the strata to (1) group sampling units by the size of their valuation and (2) be statistically valid for projection estimates, if at least 15 percent (or at least 12) of the records audited contained material deficiencies. The statistical sample of 80 program

income vouchers represented 14 of 33 grants in the universe, administered by 11 grantees and totaling more than \$47 million (table 5).

**Table 5. Disbursed program income (sample selection) as of December 2021**

Count	Grant number	Program income disbursed
1	B-06-DG-22-0001	\$1,318,177
2	B-06-DG-22-0002	24,075,895
3	B-06-DG-28-0002	11,393
4	B-08-DI-17-0001	390,563
5	B-08-DI-18-0001	1,067,582
6	B-08-DI-22-0001	1,441,795
7	B-08-DI-48-0001	11,000
8	B-12-MT-01-0002	210,094
9	B-12-MT-29-0001	90,637
10	B-12-MT-38-0001	1,100
11	B-13-DS-36-0001	18,566,993
12	B-13-MS-25-0001	1,379
13	B-13-MS-38-0002	3,585
14	B-13-US-17-0001	186,702
	<b>Total</b>	<b>47,386,895</b>

For the 80 sampled vouchers, we requested and reviewed the grantee’s voucher documentation to determine whether the grantee (1) used program income in accordance with Federal regulations to support disaster recovery efforts, (2) effectively used the funds to positively impact the program results and program beneficiaries, (3) maintained adequate documentation to support the program income disbursement, and (4) properly recorded program income. We assessed the reliability of the computer-processed data and determined that the data were generally reliable.

For the 14 grants in the voucher sample, we reviewed DRGR data for all (100 percent) to determine whether HUD ensured that (1) its grantees used program income grants’ balances before other grant funds and (2) it reconciled and tracked program income.

For the 11 grantees in the voucher sample, we reviewed the FFRs from DRGR for all grantees (100 percent) to determine whether HUD ensured that grantees submitted the required quarterly reports.

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

# Appendixes


## Appendix A – Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$2,551,375
<b>Total</b>	<b>2,551,375</b>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

## Appendix B – 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

MEMORANDUM FOR:

FROM:


SUBJECT:

Kilah S. White, Assistant Inspector General for Audit, Office  
of Inspector General, GA

Tennille Smith Parker, Director, Office of Disaster Recovery, DGR

HUD Comments for OIG Draft Audit Report – Oversight of  
Community Development Block Grant Disaster Recovery Grantees’  
Use of Program Income



TENNILLE  
PARKER  
Deputy Assistant Secretary for  
Disaster Recovery, Office of  
Disaster Recovery, U.S. Department  
of Housing and Urban Development  
Date: 2022.04.14 11:15:00 -0500

The Office of Community Planning and Development (CPD) has reviewed the draft audit report of the U.S. Housing and Urban Development’s Office of Disaster Recovery entitled *HUD’s Oversight of Community Development Block Grant Disaster Recovery (CDBG-DR) Grantees’ Use of Program Income*. CPD offers the following comments on the draft audit report for consideration.

The HUD Office of Inspector General (OIG) conducted an audit of the CDBG-DR program to determine whether HUD ensured that program income generated from disaster funds awarded to CDBG-DR grant recipients was used to positively impact and support disaster recovery in affected areas and to benefit program beneficiaries.

Overall, the Department agrees with the OIG that improvements are needed to ensure compliance with program income requirements however, CPD notes that additional controls and guidance regarding program income and financial management were reviewed and updated via the CDBG-DR Consolidate Notice (published February 3, 2022). Additionally, the HUD included additional controls within the Disaster Recovery Grant Reporting (DRGR) system in 2022 to ensure HUD staff complete applicable sections of the quarterly performance report (QPR) checklist prior to approving a QPR. The Department will review the program income discrepancies identified by the OIG and identify a comprehensive approach to ensuring grantees and HUD staff identify and resolve discrepancies in a timely manner. Therefore, the Department is accepting the OIG’s recommendations and is providing HUD comments below:

**OIG Finding 1:** HUD generally ensured that grantees used program income to support disaster recovery but did not always comply with program income requirements.

**OIG Recommendation 1A.** Require grantees to support or repay to its program \$2,552,475 from nonfederal funds, for the 10 vouchers that did not have adequate supporting documentation for expenditures.

**HUD Comment:** HUD does not agree with this recommendation for B-12-MT-38-0001 (voucher number 491679) and B-12-MS-38-0002 (voucher 444819). The grantee reduced each draw request by the available program income for a single activity. HUD does not require grantees to use

[www.hud.gov](http://www.hud.gov)

[espanol.hud.gov](http://espanol.hud.gov)

 **Comment 1 >**



## Ref to OIG Evaluation – Auditee Comments

2

program income per invoice. The method used by the grantee to process these two vouchers is compliant, however, HUD will work with the other grantees to obtain the proper supporting documentation or repayment to the DRGR account for the remaining eight vouchers.

**OIG Recommendation 1B.** Work with its grantee to resolve or correct program income balances for the three grants that had program income balances outstanding.

HUD Comment: HUD will assist grantees to resolve or correct program income balances for the grants that currently have outstanding program income balances.

**OIG Recommendation 1C.** Develop and implement controls to ensure that program income balance discrepancies are identified and corrected.

HUD Comment: The Department will review the program income discrepancies identified by the OIG and identify any additional internal controls necessary to guarantee that program income balance discrepancies are promptly addressed.

**OIG Recommendation 1D.** Develop and implement controls to ensure that untimely Federal Financial Reports are identified and corrected.

HUD Comment: The Federal Financial Report is submitted automatically in DRGR with the QPR. Grantees are required to submit QPRs within 30 days of the end of each quarter. HUD will consider if there are additional internal controls that could be used to ensure that untimely Federal Financial Reports are identified and corrected.

**OIG Recommendation 1E.** Establish a mechanism to train grantees and HUD staff on existing guidance regarding supporting documentation for expenditures, Federal Financial Reports, and program income balances on a recurring basis. Additionally, provide guidance and establish recurring training for HUD staff to monitor grantees for program income and submission of the Federal Financial Reports.

HUD Comment: HUD agrees to establish a mechanism to train grantees and HUD staff regarding supporting documentation for expenditures, submission of the Federal Financial Reports, and program income balances. Additionally, the Department will establish recurring training for HUD staff to monitor program income and submission of the Federal Financial Reports in DRGR.

**OIG Recommendation 1F.** Implement quality control procedures to ensure that HUD staff completes the action plan and QPR checklists.

HUD Comment: The Department will introduce additional controls to ensure the required components of the action plan and QPR checklists are completed in the DRGR system.

**OIG Recommendation 1G.** Develop and implement controls to ensure that grantees' policies and procedures related to program income are adequate.

 **Comment 2 >**

 **Comment 2 >**

 **Comment 2 >**

 **Comment 3 >**

 **Comment 4 >**

## Ref to OIG Evaluation – Auditee Comments

 **Comment 5 >**

3

HUD Comment: HUD notes that many improvements in the financial management and grant compliance certification process were introduced by the CDBG-DR Consolidated notice published on February 3, 2022. The CDBG-DR Consolidated notice clearly establishes controls to ensure grantee policies and procedures are adequate. The notice states, “A grantee has adequate policies and procedures to determine timely expenditures if it submits policies and procedures that indicate the following to HUD: How it will track and document expenditures of the grantee and its subrecipients (both actual and projected reported in performance reports); how it will account for and manage program income; how it will reprogram funds in a timely manner for activities that are stalled; and how it will project expenditures of all CDBG-DR funds within the period provided for in section V.A. of the CDBG-DR Consolidated notice.”

The Department will evaluate if the current controls are adequate to ensure grantee policies and procedures are accurate or if additional training and technical assistance is necessary.

**OIG Recommendation 1H.** Provide training to grantees regarding the reporting, tracking, and expenditure of program income.

 **Comment 6 >**

HUD Comment: HUD will review existing training available on HUD.gov and develop training as necessary for grantees on reporting, tracking, and expending program income.

Should you have any questions regarding these draft audit report comments, please do not hesitate to contact Rosie Beaman at [Rosie.Beaman@hud.gov](mailto:Rosie.Beaman@hud.gov).

## OIG Evaluation of Auditee Comments

- Comment 1      We acknowledge HUD’s disagreement with the conclusions made for B-12-MT-38-0001 (voucher number 491679) and B-12-MS-38-0002 (voucher number 444819). Based on our review of the documentation in correlation with HUD’s interpretation of the requirements, we agree with HUD’s assertion for voucher number 491679, which used \$1,100<sup>11</sup> of program income. As such, we have revised the finding and unsupported costs amount accordingly throughout the report.
- For voucher number 444819, which used \$13,585<sup>12</sup>, HUD did not provide any additional documentation with its written response. Based upon HUD’s comments, we reassessed the documentation that was provided during the audit to determine whether the voucher was supported. As per the file, the grantee stated that it draws down program income funds quarterly and then applies the funds to expenditures. Regulations at 2 CFR 200.403 state that except as otherwise authorized by statute, costs must be adequately documented to be allowable under Federal awards. However, contrary to this regulation, we determined that the invoices provided by the grantee were dated September 30, October 17, and October 24, 2019, after the drawdown date, which occurred on September 24, 2019. As such, we did not revise the finding and unsupported costs amount for this voucher.
- We commend HUD for its efforts to work with the remaining grantees to obtain sufficient supporting documentation or repay funds for the remaining eight vouchers. We look forward to working with HUD during the audit resolution process to ensure the recommendation is fully addressed.
- Comment 2      We thank HUD for its commitment to address recommendations 1B, 1C, and 1D. We look forward to reviewing additional controls that HUD implements because of these recommendations and working with HUD during the audit resolution process to ensure the recommendations are fully addressed.
- Comment 3      The draft report issued to HUD included a recommendation to revise HUD’s monitoring procedures to include a review of supporting documentation for program income disbursements, FFRs, and program income balances. During and after the exit conference, we coordinated with HUD to revise the recommendation that would allow HUD to determine the best course of action to achieve the

---

<sup>11</sup> File documentation indicated that the overall expenses totaled \$7,473; however, the grantee applied \$1,100 of program income from voucher number 491679 to the expenses.

<sup>12</sup> File documentation indicated that the overall expenses totaled \$655,997; however, the grantee applied \$13,585 of program income from voucher number 444819.

resolution of the overall finding. The recommendation included in HUD's response reflects the revisions that were agreed upon.

We appreciate HUD's commitment to implement training mechanisms to ensure grantees understand requirements regarding supporting documentation for expenditures, submission of the Federal Financial Reports, and program income balances. Further, we commend HUD for its proactive efforts to address recommendation 1E by incorporating the training into its monitoring function. We look forward to working with HUD during the audit resolution process to ensure the recommendation is fully addressed.

Comment 4 We acknowledge and appreciate HUD's commitment to address recommendation 1F by agreeing to implement additional controls for its action plan and QPR checklists. We look forward to working with HUD during the audit resolution process to ensure the recommendation is fully addressed.

Comment 5 We acknowledge HUD for its efforts in publishing the 2022 Consolidated Notice and its commitment to evaluate if additional controls are necessary to ensure grantee policies and procedures are accurate and to provide technical assistance where needed.

HUD's requirements for grantees to certify their policies and procedures were improved with the issuance of the 2022 Consolidated Notice. However, the deficiencies that we found during our audit were not identified as part of these five grantees' policy and procedure certifications to HUD. Therefore, we stand by our original conclusion. We look forward to working with HUD during the audit resolution process to resolve this recommendation.

Comment 6 We acknowledge and appreciate HUD's commitment to address recommendation 1H by reviewing existing training for reporting, tracking, and expending program income and developing additional training if necessary. We look forward to working with HUD during the audit resolution process to ensure the recommendation is fully addressed.

## Appendix C – Universe of Disaster Grants as of December 2021

Count	Grant number	Total grant award	Total program income received
1	B-02-DW-36-0001	\$2,000,000,000	\$12,142
2	B-06-DG-12-0001	79,221,507	404
3	B-06-DG-22-0001	6,210,000,000	28,847,893
4	B-06-DG-22-0002	4,200,000,000	218,734,142
5	B-06-DG-28-0001	5,058,185,000	3,095,600
6	B-06-DG-28-0002	423,036,059	429,084
7	B-06-DG-48-0002	428,671,849	203,000
8	B-08-DG-22-0003	3,000,000,000	1,152,356
9	B-08-DI-05-0001	90,475,898	473,191
10	B-08-DI-17-0001	193,700,004	1,120,534
11	B-08-DI-18-0001	372,546,531	17,394,072
12	B-08-DI-19-0001	734,178,651	2,054,702
13	B-08-DI-22-0001	1,093,212,571	29,763,109
14	B-08-DI-48-0001	3,113,472,856	1,618,608
15	B-08-DI-55-0001	114,619,036	177,662
16	B-10-MF-47-0002	33,089,813	2,154,214
17	B-12-DT-38-0001	11,782,684	45,500
18	B-12-MT-01-0002	16,634,702	3,173,323
19	B-12-MT-29-0001	45,266,709	2,094,409
20	B-12-MT-36-0001	10,137,818	211,983
21	B-12-MT-38-0001	67,575,964	195,005
22	B-12-UT-01-0001	7,847,084	90,217
23	B-13-DS-08-0001	320,346,000	417,892
24	B-13-DS-19-0001	96,887,177	37,977
25	B-13-DS-34-0001	4,174,429,000	5,431,088
26	B-13-DS-36-0001	4,416,882,000	84,039,966
27	B-13-MS-01-0002	43,932,000	417
28	B-13-MS-25-0001	21,896,000	180,681
29	B-13-MS-29-0001	113,276,000	85
30	B-13-MS-36-0001	4,213,876,000	7,119,272

Count	Grant number	Total grant award	Total program income received
31	B-13-MS-38-0001	35,056,000	112,672
32	B-13-MS-38-0002	74,340,770	70,398
33	B-13-US-17-0001	83,616,000.00	2,005,028
<b>Totals</b>		40,898,191,683	432,456,725