Office of Community Planning and Development, Washington, DC

Community Development Block Grant Disaster Recovery

Office of Audit
Atlanta, GA

Audit Report Number: 2022-AT-0001
January 5, 2022

To: Kevin Bush, Deputy Assistant Secretary, Office of Deputy Assistant Secretary for Grant Programs, H

//signed//
From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: Opportunities Exist To Improve CPD's Oversight of and Monitoring Tools for Slow-Spending Grantees

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of HUD's Office of Community and Planning Development's (CPD) Community Development Block Grant Disaster Recovery program.

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, appendix 8M, 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 Nikita N. Irons, Audit Director, at (404) 331-3369.

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

Highlights

Audit Report Number: 2022-AT-0001
Date: January 5, 2022

Opportunities Exist To Improve CPD's Oversight of and Monitoring Tools for Slow-Spending Grantees

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development (HUD), Office of Community Planning and Development's (CPD) oversight and monitoring of its Community Development Block Grant Disaster Recovery (CDBG DR) slow spending grantees. This was a self initiated audit consistent with our oversight activities and current top priority areas. Our objective was to assess CPD's monitoring and oversight tools related to the progress of grant expenditures and determine the status of the grants and impacts of COVID 19 on grantee spending.

What We Found

CPD has tools available for the oversight and monitoring of its grantees. The tools mainly assist in evaluating or tracking the progress of the grants. While one tool identified slow spenders on a short-term basis, it did not help assess slow spending in the long term. We identified opportunities for CPD to enhance its (1) monthly CDBG-DR grant financial report, (2) use of Disaster Recovery Grant Reporting (DRGR) system flags, (3) use of grantee expenditure projections, (4) documentation for quarterly performance report reviews, and (5) documentation for monitoring reviews and updating the related exhibit (questionnaire). Enhancing these tools may allow CPD to provide more effective oversight of grant expenditures and better assist its grantees with the progress of their spending. It will also assist in preventing the recapture of funds from communities with needs that can benefit from these funds. As of July 30, 2021, more than $3.7 billion remained unspent of the $18.5 billion appropriated in CDBG-DR funds for disasters that occurred from 2011 through 2016, and the pandemic has slowed the progress of these grants.

What We Recommend

We recommend that the Deputy Assistant Secretary require CPD to (1) continue developing proper methodology to identify slow spenders and update policies, procedures, and its monitoring exhibit; (2) establish a reasonable timeframe for grantees to adequately address the system flags in DRGR, and resolve or remediate outstanding flags; (3) require updated grantee projections; (4) sufficiently document its basis for conclusions in its monitoring and quarterly performance reviews; and (5) consider grantee suggestions to assist with the progress of spending funds.

For more information, visit www.hudoig.gov or contact Nikita N. Irons at (404) 331-3369 or nirons@hudoig.gov.

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Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD's Office of Community Planning and Development (CPD) seeks to accomplish this mission through a wide variety of housing and community development grants and loan programs.

When the President declares a disaster, Congress often appropriates additional funding to HUD's CPD Community Development Block Grant (CDBG) program as Disaster Recovery (DR) grants[1] to rebuild the affected areas and bring crucial funds to stimulate the recovery process. CDBG-DR assistance helps communities and neighborhoods that otherwise might not recover due to limits on other resources. CPD's Office of Block Grant Assistance is responsible for administering CDBG-DR funding. Specifically, the Disaster Recovery and Special Issues Division (DRSI)[2] within the Office of Block Grant Assistance manages the CDBG-DR grants. DRSI is responsible for policy development regarding the implementation of CDBG-DR funds and provides technical assistance to CPD field offices that work directly with some of the CDBG-DR grantees. Based on the amount of funding provided and a risk analysis, grants are assigned to either DRSI or the CPD field office.[3]

From 2011 through 2016, severe storms, tornadoes, hurricanes, and flooding hit several States. In response to these disasters, Congress appropriated[4] approximately $18.5 billion in CDBG-DR funding, of which more than $3.7 billion remained unspent as of July 30, 2021. HUD allocated the $18.5 billon to affected States and local municipalities to help communities recover. Through Federal Register notices, CPD notifies grantees of the allocation of funds and requirements that govern the specific CDBG-DR appropriations. Federal Register notices may also indicate that CPD monitors a grantee's actions and use of funds for consistency with the grantee's action plan as well as whether the grantee is meeting performance and timeliness objectives. In general, the action plan describes how the grantee will use the CDBG-DR funds and identifies the specific recovery programs that the grantee plans to accomplish. The action plan also includes the general requirements of each of the grantee's recovery programs, such as the national objective the program is to address, total funding amount dedicated to the program, eligibility criteria, and the maximum award amount.

According to program requirements that are established through Federal Register notices, grantees are required to spend the funds in a timely manner, and some grants include expenditure

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1 CDBG-DR funding is authorized under Title I of the Housing and Community Development Act of 1974 as amended.

2 DRSI was officially established in 2004, due to the scope and magnitude of supplemental DR grants.

3 DRSI works directly with those grantees that meet the "high risk threshold," which is based on a consideration of the size of individual grants (grants of $500 million or more are automatically deemed to be "high risk") and the capacity of the grantee. CPD field offices are assigned responsibility for grants of less than $500 million, absent identified specific and significant risk or workload considerations.

4 Congress passed Public Law (P.L.) 112-55 on November 18, 2011, P.L. 113-2 on January 29, 2013, P.L. 114-113 on December 18, 2015, P.L. 114-223 on September 29, 2016, P.L. 114-254 on December 10, 2016, and P.L. 115-31 on May 5, 2017.

deadlines. For example, Federal Register notice 77 FR 22583 does not establish an expenditure deadline for multiple disasters occurring in 2011 but does require HUD to evaluate timeliness related to a grantee's established performance schedule in its action plan. Federal Register notices 80 FR 26942 and 82 FR 36812 allow grantees for Hurricane Sandy and multiple disasters in 2011 through 2013 until September 2022 to spend the grants. Further, Federal Register notices 81 FR 39687 and 81 FR 83254 require expenditure of the funds appropriated for Hurricanes Joaquin and Patricia and other events in 2015 and Louisiana floods and other disasters in 2016 within 6 years of HUD's execution of the grant agreement.

CPD uses various tools to provide oversight and monitoring of grantees, including the monthly CDBG-DR grant financial report, projections of expenditures, the quarterly performance report (QPR), monitoring reviews, and Disaster Recovery Grant Reporting (DRGR) system flags. The DRGR system was developed by CPD for the CDBG-DR grants and other special appropriations. It is primarily used by grantees to access grant funds and report performance accomplishments for grant-funded activities. The system is used by HUD staff to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor program compliance. These tools assist CPD in evaluating or tracking the progress of the grants.

On March 13, 2020, the President declared a nationwide emergency for the Coronavirus Disease 2019 (COVID-19). HUD recognized that due to COVID-19, grantees may experience a decrease in their CDBG-DR expenditures, making it difficult for grantees to continue certain recovery activities at their prior pace, including construction, applicant intake, and permitting.

Our audit objective was to assess CPD's monitoring and oversight tools related to the progress of grant expenditures and determine the status of the grants and impacts of COVID-19 on grantee spending.

Results of Audit

Finding 1: Opportunities Exist To Improve CPD's Oversight of and Monitoring Tools for Slow-Spending Grantees

Although CPD has tools available for the oversight and monitoring of its grantees, we identified opportunities for it to improve its oversight and monitoring, specifically for slow-spending CDBG-DR grantees. CPD's tools mainly assist in evaluating or tracking the progress of the grants. While one tool identified slow spenders on a short-term basis, it did not help assess slow spending in the long term. We identified opportunities for CPD to enhance its (1) monthly CDBG-DR grant financial report, (2) use of DRGR system flags, (3) use of grantee expenditure projections, (4) documentation for QPR reviews, and (5) documentation for monitoring reviews and updating the related exhibit (questionnaire). Enhancing these tools may allow CPD to provide more effective oversight of grant expenditures and better assist its grantees with the progress of their spending. It will also assist in preventing the recapture of funds from communities with needs that can benefit from these funds. As of July 30, 2021, more than $3.7 billion remained unspent of the $18.5 billion appropriated in CDBG-DR funds for disasters that occurred from 2011 through 2016, and the pandemic has slowed the progress of these grants.

Inclusion of Appropriate Methodologies in CPD's Monthly CDBG-DR Grant Financial Report Can Improve Its Ability To Identify Slow-Spending Grantees

CPD's monthly CDBG-DR grant financial report was created as a tool to provide CPD, grantees, and the public with the short-term spending status of DR grants. The monthly report compared an average of the last 3 months of disbursements to the expected monthly pace.[5] If a grantee's 3-month average of disbursements was less than 90 percent of the expected monthly pace, it was marked as a "slow spender" on the report for the month. Because the designation of a "slow spender" can vary from month to month, this measurement identified only the short-term impact and limited CPD's ability to assess the grantee's long-term performance. Therefore, further development is necessary to clearly define "slow spenders" while continuing to develop a more appropriate timeframe for when grantees should be classified as slow spenders.

CPD recognized that its current methodology did not accurately reflect the actual expenditure patterns or recovery of CDBG-DR grantees because its methodology did not consider the complexity of projects, seasonal construction issues, preliminary work to develop policies and procedures required before work begins, or lawsuits. CPD stated that these factors should be reflected in establishing a good baseline. CPD also recognized that some grantees may experience a related decrease in their CDBG-DR expenditures due to the COVID-19 pandemic.

[5] The expected monthly pace is the remaining balance of the grant divided by the months remaining until the targeted closeout date.

Therefore, CPD stopped publishing these reports for data as of February 2020[6] and was revising the methodology to improve how CPD identifies slow spenders and, therefore, how it might assist slow-spending grantees in the future. In addition, DRSI indicated that it was revising its procedures guidebook related to tracking expenditures.[7]

We acknowledge CPD's efforts in revising its slow spender methodology and establishing a realistic baseline that is effective, which may help CPD in assisting slow-spending grantees. As of August 2021, DRSI indicated that HUD was in the final stages of updating the slow spender methodology and the internal procedures pertaining to the "slow spender" report. Therefore, DRSI expected to begin implementing the new process at the beginning of fiscal year 2022.

Addressing Flags in the DRGR System in a Reasonable Timeframe Can Improve CPD's Use of This Tool

The DRGR system includes 36 flags created to alert DRGR users (CPD and grantees) with information related to compliance, reporting, timeliness, and other specified criteria. CPD's DRSI indicated that these flags notify grant managers to review a specific issue associated with a grant. The flag will remain present until the grant manager or grantee acts on the flag.[8]

We reviewed the DRGR system to identify whether there were any active flags for four selected grants,[9] pertaining to concerns with spending (drawdowns-expenditure activity) and timely expenditure of funds. All four grants reviewed had active flags, with one grant having six flags that had been active since January 2018 and September 2019. For example, one flag identified a compliance issue because the activity end date had passed and the activity was still not complete. In another instance, the system flagged grants because there was a concern with the grantees' timeliness in meeting the expenditure deadline. According to CPD's DRSI and the DRGR flag manual, there were no resolution deadlines associated with the flags. While this tool may be helpful, if the flags are not addressed in a timely manner, the grantee risks remaining in noncompliance for a longer period, which may impact its performance or compromise its ability to address concerns before they become problems.

In March 2021, CPD announced an update to its DRGR User Manual, which included the Compliance Flags chapter. Updates indicated that the grantee should attempt to resolve or remediate the flags before submitting its action plan or performance report.[10] While we recognize CPD's effort, the manual does not explicitly state that grantees are "required to" or "must" address the flags in a timely manner. As an oversight tool, we believe it is important for

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6 In lieu of the monthly CDBG-DR grant financial report, CPD began publishing monthly CDBG-DR grant expenditure reports in August 2020 to allow CPD and the public to review grantee expenditures. As of July 2021, CPD continued to publish these monthly CDBG-DR grant expenditure reports.

7 Chapter VIII of DRSI's CDBG-DR Procedure Guidebook, revised February 2020

8 HUD's DRGR Flag Quick Guide lays out the condition(s) for the flags and HUD's and grantees' actions needed to resolve or remediate the identified flag.

9 The Scope and Methodology section of this report discusses the grants and respective grantees that we selected to review CPD's use of its oversight and monitoring tools.

10 The DRGR User Manual states that the action plan is fluid and expected to change often; therefore, submission of the action plan to HUD varies as changes occur. The performance report is due quarterly.

the grantee to appropriately address flags and to do so in a timely manner so that flags are meaningful to the grantee's performance. Appropriately addressing flags also provides accountability for both CPD and the grantee regarding how and when the grantee plans to address flags, or how it has already addressed flags. Further, allowing flags to remain unresolved represents missed opportunities for CPD to improve grantee compliance and performance.

During our audit, CPD indicated that it would work with the grantees to address and resolve the flags.

Opportunities Exist To Improve CPD's Use of Grantees' Projection of Expenditures

The projection of expenditures tool is used to track the progress of grantees' expenditures by comparing actual to projected expenditures. According to Federal Register notices applicable to the four grants we reviewed,[11] grantees are required to submit to CPD a projection of expenditures (projected quarterly) for each major activity type in DRGR. This requirement allows CPD to track proposed versus actual performance. CPD's DRSI stated that it reviewed grantees' projections of expenditures during the monitoring reviews, as part of completing monitoring exhibit 6-1.[12] However, we identified ways in which CPD could use this tool more effectively, including but not limited to

- Regular reviews of projections: Projections should be reviewed regularly; that is, quarterly or biannually, not just during monitoring reviews. If there is a delay in monitoring a grantee, timeliness issues indicated in the projection may go unnoticed for longer periods.

- Using projections as a benchmark: Projections can be used to determine whether the grantee is on target to meet its expenditure deadlines. Because the projections are created by the grantee, it would benefit CPD to ensure that the grantee incorporates the complexity of the projects and the changes in spending between the initial planning phase and construction phases. By comparing the actual expenditures with the projected amounts, CPD can focus monitoring on the grantees that are not meeting their own targets.

- CPD indicated that it was developing additional tools in DRGR, which would more accurately compare grantee projections to grantee actuals in the system and streamline the process for the grantees.

- Updating monitoring exhibit 6-1: We reviewed exhibit 6-1 and determined that it requires CPD to review expenditure projections for only the Public Law 113-2 (Sandy)

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[11] 77 FR 22583, 82 FR 36812, 81 FR 39687, and 81 FR 83254

[12] CPD Monitoring Handbook 6509.2, Exhibit 6-1, "Guide for Review of Overall Grant Management of CDBG DR Grants," provides the CPD reviewer with a series of questions to address when conducting a grantee monitoring review. The questions are grouped into the following categories: overall grant management, monitoring of local governments by State grantees, financial thresholds, and capacity and performance.

grant. To ensure that CPD reviews the projections for all applicable grants, updates should be made to the exhibit by including the other grants. In addition, we noticed that the exhibit did not require CPD to document the reason for the difference between the actual and projected expenditures. CPD's DRSI explained that if there were differences between the projections and actuals, the grantee would have to update the projection. In December 2020, CPD provided exhibit 6-1, revised as of November 2020, which required CPD to review the projection of expenditures and outcomes for all applicable grants. We acknowledge CPD's efforts and revisions. However, documenting the reasons for the differences between the actual and projected expenditures may identify barriers or potential problems with the grant and allow CPD more insight on how to assist the grantee.

- Updating grantees' projections: We reviewed expenditure projections for the four grants selected. For two of the four grants, the difference between the actual and projected amounts differed by more than 90 percent as shown in table 1 below. The two remaining grants are not presented in the table because one grantee was modifying its grant use plans,[13] while the other grantee had recently updated its projection of expenditures.

Table 1

Grant	Projected expenditures as of 6/30/20	Actual expenditures[14] according to 6/30/20 QPR	Difference between actual and projected	Percentage difference
B-13-MS-36-0002	$51,000,000	$1,285,032	($49,714,968)	-97
B-16-DL-12-0001[15]	64,427,637	3,479,193	(60,948,444)	-95

Given the differences, procedures for updates to projections can allow CPD to assist the grantee as needed to ensure that the expenditure deadlines will be met.

CPD stated that it would work with the grantees to determine whether the grants identified above require an update to the projection of expenditures and outcomes.

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[13] Due to COVID-19, the grantee experienced delays. The grantee planned to resume spending funds in April 2021; however, according to the drawdown report as of April 13, 2021, the grantee had not drawn down additional funds as planned. The grantee shared that it continued to work on revised plans for its DR grant.

[14] CPD's DRSI indicated that the comparison should be made between the projected amount and drawdown amount.

[15] We recognize that due to the pandemic, this grantee received an automatic 1-year extension and will need to update its projections. Federal Register notice 85 FR 50041 explains that as a result of the pandemic, grantees that received a CDBG-DR allocation for a 2015, 2016, or 2017 disaster were provided an automatic 1-year extension. In addition, grantees were provided the option to request an additional expenditure extension beyond the 1-year extension, subject to meeting certain requirements stated in this register.

Sufficient Documentation of the Grantees' Quarterly Performance Report Can Improve CPD's Oversight

The QPR is a tool that provides a narrative description of the grantee's progress as well as disbursement information by activity and accomplishments. The Federal Register notices require grantees to submit these reports to CPD, and the DRGR User Manual requires that CPD review them.[16] According to the DRGR User Manual, CPD uses a QPR checklist to complete a thorough review of the grantee's QPR. CPD DRSI explained that the QPR checklist includes questions pertaining to the progress of expenditures. CPD reviews the QPR to determine whether the grantee appears to be spending funds at a reasonable pace and whether the cumulative expenditures are on track to meet the grant deadline.

We reviewed the QPR checklist and reviewer comments for January through March 2020 for the four selected grants to determine whether CPD checked on each grant's progress regarding expenditures. While we noted that CPD checked for progress in spending funds, it did not clearly explain how it arrived at its determinations about the progress. For example, in one instance, the reviewer noted that the grantee was not (1) spending funds at a reasonable pace and (2) on track to meet the expenditure deadline. However, there was no explanation for the reviewer's conclusion, such as the pace at which the grant should be spent or how the reviewer determined that the grantee was not on track to meet the expenditure deadline. In another instance, the reviewer commented on the grantee's lack of progress on the project and ability to spend the funds by the expenditure deadline. However, additional details were not included to provide a basis for the review comments, information on delays the grantee was facing, or recommendations for how the grantee could improve. In addition, the reviewer did not fully complete the QPR checklist for this grant.

To better understand the reviewer's determinations, it would be beneficial for the reviewer to provide additional detail on the QPR checklist to support the basis of the conclusions. Providing additional detail would also assist CPD in its oversight of these grantees to ensure that they are able to get on pace to meet the expenditure deadline.

Enhanced Exhibit and Sufficient Documentation Can Improve CPD's Monitoring Reviews

CPD Monitoring Handbook 6509.2 requires staff to conduct regular monitoring based on a risk analysis. Generally, CPD conducts monitoring reviews of high-risk grantees annually, at a minimum. CPD's DRSI indicated that the designation of a slow spender would not be the sole indicator of a high-risk grantee.

CPD's DRSI stated that it uses the monitoring reviews to assess compliance with applicable statutory or regulatory requirements and that there is no statutory or regulatory expenditure rate. Therefore, CPD does not review for slow spending or identify the cause of slow spending. Expenditures are included as a topic in onsite monitoring as part of HUD's review of the grantee's overall grant management. Our review focused on whether CPD staff checked for timeliness of expenditures (including whether the grantee was on track to meet the expenditure deadline as applicable) during its monitoring reviews. Monitoring exhibit 6-1 includes questions

[16] HUD's DRGR User Manual, Version 2, Section 6, QPR Module, dated August 2017

for timeliness of expenditures, including whether the grantee established a timeline for spending funds, with a yes or no response expected from the reviewer. Although having a timeline for spending funds is useful, to better understand the progress of the grant, it would also be important to know whether the grantee is meeting the established timelines and reasons for discrepancies.

In addition, while CPD conducted monitoring reviews, its bases for conclusions were not clear or sufficiently supported. Handbook 6509.2, chapter 2, states that the monitoring conclusions must be clear and adequately documented, including supporting documents, such as exhibits, schedules, agreements, participant policies, etc. Including adequate support for its conclusions provides more detail for readers who are not familiar with the program or grantee and helps the reader understand how CPD reached its conclusions.

For example, the monitoring report indicated that the grantee for grant B-13-MS-36-0002 was on track to draw its funds by the expenditure deadline. CPD's DRSI indicated that it discussed the grant with the grantee but did not include a basis or adequate support for how it determined that the grantee was on track to meet the expenditure deadline; rather, its discussion noted potential concerns. During our review of this grant, we identified that the grantee was consistently reported as a slow spender and had used less than 1 percent of its funds since the grant agreement was signed in January 2017. Therefore, documented support would provide more perspective on CPD's determination of this grant's being on track.

In another instance, the reviewer indicated that the grantee had established a timeline for spending all grant funds, based on a review of the grantee's written agreements, but did not specify which written agreements were used for its review as required by CPD Monitoring Handbook 6509.2. The reviewer also concluded that the grantee had adequate procedures to ensure that programs and activities met established end dates and that the grantee was projected to meet its expenditure deadline. However, CPD did not provide a basis for these determinations. Therefore, it may be beneficial to require additional detail to adequately document the basis for conclusions as required.

Grantees Generally Considered CPD's Assistance With the Progress of Their Grants Helpful

To assist us with our assessment of CPD's tools, we provided a survey questionnaire to eight[17] grantees to obtain feedback regarding CPD's monitoring and oversight. We received survey responses from seven of the eight grantees. The survey questionnaire asked the grantee to rate CPD's assistance on a scale from 1 to 5, with 1 being "not helpful" and 5 being "very helpful," to determine (1) whether CPD was helpful with the progress of its grant, (2) whether CPD's assistance addressed its concerns, and (3) what additional assistance from CPD may be needed to help with progress in spending its grant funds. Generally, the grantees thought that CPD's assistance had been helpful with the progress of their grants. Based on the results, CPD's assistance through monitoring reviews, technical assistance, and emails or phone calls was most

[17] The Scope and Methodology section of this report discusses the grants and respective grantees that we selected to review CPD's use of its oversight and monitoring tools.

helpful, indicated by grantee ratings that averaged higher than 4.0. See table 2 below.

Table 2

Grant	CPD's assistance related to the progress of spending through the following tools			CPD addressed grantee concerns questions through	
	Monitoring reviews	QPR reviews	Projections of expenditures	Technical assistance	Emails or phone calls
A	5	5	5	5	5
B	3.5	3	2.75	3.5	3.5
C	4	4.7	5	5	5
D	4	3.6	3.2	3.75	3.8
E	4	4	4	4	4
F	4	2	Not provided	4	4
G	5	4	3	3	4
Overall average	**4.21**	**3.76**	**3.83**	**4.04**	**4.19**

As part of our survey questionnaire, grantees were asked for suggestions that may help with their progress in spending funds. Below are some of the grantees' suggestions, which we agree would be helpful in assisting the grantees.

- Codified disaster recovery program – Permanent statutory authority of the CDBG-DR program would help with the spending of funds. The process to access the DR funding is lengthy, from the appropriation and subsequent Federal Register notice to the public input and unmet needs assessment, through the submission, review, and approval of the required State action plans. Hence, streamlining the process would help with the spending of funds.[18]

- Expenditure expectations – CPD's metric to measure expenditure expectations should be enhanced. CPD's expenditure metric starts at the time of concept approval but does not consider the complexity of projects and all requirements with which the grantee must comply.

- Enhanced projections tool – More guidance should be provided regarding the projections tool; specifically, how frequently it should be updated, as well as what CPD would like to see included in the updates.

[18] OIG Audit Report 2018-FW-0002 and OIG Investigation Report 2019SU008945I also identified the need for HUD to pursue codification of the CDBG-DR program and included recommendations to address this concern.

- Suggestions to improve spending – Guidance or best practices should be developed on how to improve spending.

- Finding solutions to challenges – Specific recommendations should be provided to address findings in CPD's monitoring reviews.

Progress of Grants Was Impacted by the Pandemic

Given the impacts that the pandemic is having worldwide, we also asked the grantees what effects COVID-19 has had on their administration of DR grants. The grantees indicated that the impacts of the pandemic have slowed their grants' progress.[19] The pandemic's impact included business and office closures or limited hours, as well as challenges with purchasing materials, obtaining permits, inspections, and conducting assessments. One grantee shared that applicants were hesitant to allow grantee staff to go on site. Thus, its staff could not assess the damage or conduct environmental reviews. In moving forward, grantees shared that they were still weighing the impacts of COVID-19 on their grants.

As a result of the pandemic, grantees were provided an automatic 1-year extension if they had received a CDBG-DR allocation for a 2015, 2016, or 2017 disaster. In addition, grantees were provided the option to request an additional expenditure extension beyond the 1-year extension, subject to meeting certain requirements,[20] based on Federal Register notice 85 FR 50041. Only two of the four grantees reviewed were eligible for this extension, and one of the two grantees indicated that it would request the additional extension. The other grantee indicated that it believed that the automatic extension would be sufficient.

Grant Funds Remained Unspent

Based on DRGR, as of July 30, 2021, there were 73 active DR grants with a total awarded amount of $18 billion. Of this amount, grantees had drawn down more than $14 billion; thus, more than $3.7 billion in CDBG-DR funds remained unspent as shown in table 3 below.

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[19] OIG Audit Memorandum 2021-GA-0801 was also based on questions posed to CDBG-DR grantees regarding how the pandemic had impacted their disaster recovery work and the level of assistance that HUD had provided to address pandemic-related challenges. Grantees reported that HUD's actions were supportive and helpful because of revisions made to CDBG-DR requirements that added flexibilities and extensions to existing expenditure deadlines.

[20] According to Federal Register notice 85 FR 50041, a grantee requesting the additional 1-year extension was required to explain how the COVID-19 pandemic affected its ability to spend CDBG-DR funds in a timely manner and meet its original expenditure deadline. A requesting grantee was also required to submit an updated version of its "CDBG-DR Grantee Projections of Expenditures and Outcomes" report that provided for the full expenditure of the grant within the expenditure period requested.

Table 3

Appropriation	No. of active grants	Total awarded	Total drawdown	Amount remaining
			As of July 30, 2021	
2011 disasters	15	$ 366,557,105	$ 295,669,562	$ 70,887,543
2011-2013 disasters	44	15,161,899,000	12,679,476,262	2,482,422,738
2015 disasters	7	400,447,000	233,302,944	167,144,056
2016 disasters	7	2,604,529,000	1,568,132,183	1,036,396,817
Totals	**73**	**18,533,432,105**	**14,776,580,951**	**3,756,851,154**

During our audit, we followed up with the four grantees reviewed to determine the cause of their slow spending. Our audit included one grant under each of the four appropriations listed in the table above.

- For the 2011 disasters, we reviewed the City of Birmingham, which identified $2.6 million in unspent funds. The grantee indicated that delays with its 2011 grant were due mostly to the City's focus on its 2013 grant, as it had an expenditure deadline, but the 2011 grant did not.

- For the 2013 disasters, we reviewed the City of New York, which identified $174 million in unspent funds due to delays with the project's design phase caused by the City's budgetary issues and the complexity of the project.

- For the 2015 disasters, we reviewed the City of Houston, which identified $78 million in unspent funds. The grantee explained that the reason for the unspent funds was that spent funds had been used for infrastructure projects, which are slow in the early phases because up-front activities take time. Once the construction phase begins, funds are spent at a faster pace. Also, the City explained that it experienced challenges with its home repair program because the same geographical area was later affected by Hurricane Harvey in 2017. The City's QPR for the period ending March 31, 2020, stated that the City was working to alleviate confusion because homeowners did not understand that if they were impacted by the 2015 floods as well as Hurricane Harvey in 2017, they could still be assisted.

- For the 2016 disasters, we reviewed the State of Florida, which identified that less than 1 percent of its funds had been drawn down due to staff capacity issues at the State and subrecipient level.

Conclusion

As of July 2021, more than $3.7 billion in CDBG-DR funds had not been spent for disasters that occurred from 2011 through 2016, and grantee progress in spending these funds has been further impacted by challenges of the COVID-19 pandemic. Of the $3.7 billion, more than $2.4 billion

will reach its expenditure deadline in September 2022. [21] Therefore, it is important that CPD continue to enhance its tools for oversight and monitoring of grantees (as illustrated in appendix B). Focusing on grantees that had challenges with progress in spending before the pandemic and grants approaching expenditure deadlines will help avoid the recapture of funds and better ensure that DR funds reach communities in need.

During our audit, CPD indicated that it was revising and updating its oversight and monitoring tools.

Recommendations

We recommend that the Deputy Assistant Secretary require CPD to

1A. Revise its methodology to identify slow spenders, including appropriate baselines and the definition of slow spenders.

1B. Update its policies and procedures for tracking expenditures related to slow-spending grantees, including steps for assisting the grantees to expedite spending (including the grantee's steps or actions to address slow spending), identifying the reasons for the delays with the grant, and documenting the outcome of its efforts.

1C. Establish a reasonable timeframe for grantees to resolve DRGR flags or at a minimum, if a flag cannot be resolved within the established timeframe, have the grantee provide a remediating comment explaining why the flag could not be resolved and a proposed timeline for resolution.

1D. Resolve or remediate outstanding flags for grants B-12-MT-01-0001, B-13-MS-36-0002, B-16-MH-48-0001, and B-16-DL-12-0001 in DRGR.

1E. Require updated projections for grants B-12-MT-01-0001, B-13-MS-36-0002, and B-16-DL-12-0001 and provide assistance to the grantees to ensure that the expenditure deadlines will be met.

1F. Update its policies and procedures to require grantees to identify the reason for variances between the actual and projected expenditures to enhance CPD's oversight.

1G. Update monitoring exhibit 6-1 to include (1) reasons for differences between actual and estimated projections and (2) a question to determine whether the grantee is meeting the timelines established and if the timelines are not met, providing reasons.

1H. Update policies and procedures to require CPD staff to sufficiently document its basis for conclusions to meet the monitoring handbook and QPR checklist requirements and intentions.

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[21] P.L. 116-260 provides that funds from the Disaster Relief Act, 2013 (P.L. 113-2) will remain available through fiscal year 2023.

1I. Consider suggestions made by grantees to assist with the progress of spending funds and provide support for the guidance it plans to share with grantees based on these suggestions. (See bullets under Grantees Generally Considered CPD's Assistance With the Progress of Their Grants Helpful.)

Scope and Methodology

We performed our audit work from February 2020 to July 2021 in Miami, FL, and Atlanta, GA. Our audit covered grantees that received CDBG-DR funding for the 2011-2016 disasters.[22] Our initial audit period was June 2018 through March 2020; however, we expanded our audit period to include the impacts of the pandemic and status of the DR grants as of July 2021.

To accomplish our audit objective, we

- reviewed prior Office of Inspector General (OIG) and U.S. Government Accountability Office audit reports;
- reviewed CPD monitoring reports;
- reviewed relevant criteria, including public laws, Federal Register notices, the DRGR manual and disaster recovery guidebook, and CPD's Monitoring Handbook;
- interviewed HUD staff and CDBG-DR grantees;
- provided survey questionnaires and obtained responses from grantees;
- reviewed monthly CDBG-DR grant financial reports;
- reviewed projections of expenditures for CDBG-DR grants; and
- reviewed flag details reports, drawdown reports, and QPRs from DRGR.

We selected a sample of eight grants[23] to review the implementation of DR grant monitoring tools available to CPD. Our scope covered grants with allocations from the 2011-2016 disaster recovery appropriations, which totaled 74 active grants. Of these 74 grants, the respective grantees for 45 grants were designated as slow spenders in the January 2020 monthly CDBG-DR grant financial report. Because the slow spender designation varied by month, our selection was based on the progress of the drawdowns. Due to the small number of grants, we selected the sample of eight grants using a nonstatistical approach. We selected all grants with minimal drawdowns (less than or equal to 1 percent of the grant) between November 2019 and March 2020 and those grants that had less than 75 percent of the grant amount spent as of March 2020. The results of this audit apply only to the items reviewed and cannot be projected to the universe of grants.

We provided a survey questionnaire to the eight grantees to obtain their feedback on CPD's monitoring tools and oversight of the selected grants. We received survey responses from seven of the eight grantees.

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[22] The 2011 through 2016 funding allocations refer to funding allocated through appropriations in P.L. 112-55, multiple disasters in 2011; P.L. 113-2, Hurricane Sandy and multiple disasters in 2011-2013; P.L. 114-113 and P.L. 115-31, Hurricanes Joaquin and Patricia and other events in 2015; and P.L. 114-223, P.L. 114-254, and P.L. 115-31, Louisiana floods and other disasters in 2016.

[23] Each of the eight grants was awarded to a different grantee; therefore, our sample consisted of eight grantees.

We also selected a nonstatistical sample of four of the eight grants and reviewed support for the determinations made by CPD when using its monitoring tools in oversight of these four grants and the respective grantees. To select these four grants, we selected one grant from each disaster.[24] The four grantees for the four selected grants were designated as slow spenders each month during the period June 2018 through January 2020.

Computer-processed data were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of these computer-processed data.

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.

[24] The four disasters included the multiple disasters in 2011, Hurricane Sandy and multiple disasters from 2011 through 2013, Hurricanes Joaquin and Patricia and other events in 2015, and Louisiana floods and other disasters in 2016.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

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.

Significant Deficiencies

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Based on our audit, we found no significant deficiency but did identify internal control weaknesses noted in the body of the finding. 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 CPD internal controls.

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

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

OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT

MEMORANDUM FOR: Nikita N. Irons, Audit Director, 4AGA

FROM: Kevin J. Bush, Deputy Assistant Secretary for Grant Programs, DG

Digitally signed by Kevin Bush
Date: 2021.10.13 11:22:06 -04'00'

SUBJECT: HUD Comments for OIG Draft Audit Report – Opportunities Exist to Improve Community Planning and Development's Oversight of and Monitoring for Slow Spending Grantees

The Office of Community Planning and Development (CPD) has reviewed the draft audit report, "Opportunities Exist to Improve CPD's Oversight of and Monitoring for Slow Spending Grantees." CPD offers the following comments on the draft audit report for consideration.

The HUD Office of Inspector General (OIG) conducted an audit of HUD's grantees that received funding from the 2011 to 2016 disasters, which included the impacts of the COVID-19 pandemic. The OIG draft report indicated that as of July 2021, $3.7 billion in Community Development Block Grant Disaster Recovery funding had not been spent (CDBG-DR). Further, the spending had slowed since the start of the pandemic declaration. Overall, the HUD OIG recommends that CPD enhance its tools for oversight and monitoring of its grantees.

HUD is committed to updating policies and procedures consistent with several of the recommendations. For the other recommendations, HUD is committed to providing technical assistance and improving how we operationalize our slow spending internal controls. Although the Department recognizes and appreciates the OIG's recommendations, HUD is concerned that the recommendations are not based on regulations, and the recommendations are therefore open to interpretation and not easily resolved.

The discussion below includes CPD's comments on the specific OIG Recommendations:

OIG Finding 1: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Opportunities Exist to Improve CPD's Oversight of and Monitoring's Tools for Slow Spending Grantees

OIG Recommendation 1A: Revise its methodology to identify slow spenders, including appropriate baselines and its definition for slow spenders.

HUD Comment: Although at the time of this audit, HUD defined slow spending status as any grantee spending 10 percent less than the monthly pace necessary to fully expend the grant by the targeted expenditure deadline, the Department has developed a new methodology for the analysis of grantee spending which more accurately reflects the stages of the grant life cycle. The Department will begin releasing reports under the new methodology in the first quarter of FY22.

www.hud.gov espanol.hud.gov

OIG Recommendation 1B: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Update its policies and procedures for tracking expenditures related to slow spending grantees, including steps for assisting the grantees to expedite grantee spending (including the grantee's plan of action), identifying the reasons for the delays with the grant, and documenting the outcome of its efforts.

Comment 3

HUD Comment: HUD intends to update the DRSI Procedures Guidebook to include the new slow spender methodology and reporting process and will include steps for grant managers to provide technical assistance to grantees when applicable. HUD is committed to helping grantees meet their expenditure deadlines and recover from disasters. However, requiring a plan of action from the grantee may result in additional administrative burden and will not expedite grantee spending. The Department would also like to emphasize the importance of developing programs that support the recovery needs of the community and recovery outcomes through the expenditure of disaster funds.

OIG Recommendation 1C: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Establish a reasonable timeframe for grantees to resolve Disaster Recovery Grant Reporting (DRGR) flags or, at a minimum, have the grantee provide a brief remediating comment explaining why the flag could not be resolved and a proposed timeline for resolution.

Comment 4

HUD Comment: It is important to note that addressing the flags in DRGR is not a statutory, regulatory, or *Federal Register* notice requirement. The DRGR flags were introduced as tools to assist Grantee and HUD Users with the review of action plans and identify potential issues. The DRGR User Manual advises Grantee Users to attempt to resolve flags prior to Action Plan or Performance Report submissions, but many of these flags were introduced after older grants were already in the system. Therefore, the DRGR User Manual includes the following timeframe for resolving DRGR flags: "HUD encourages Grantees to review, manage, and resolve flags for quality control purposes, resolving all flags prior to Action Plan and Performance Report submission is not an overall requirement of the DRGR System and will not prevent submission of the Action Plan or Performance Report for HUD review. Grantees, however, will not be able to close out their Grant until all flags are resolved."

OIG Recommendation 1D: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Resolve or remediate outstanding flags for grants B-12-MT-01-0001, B-13-MS-36-0002, B-16-MH-48-0001, and B-16-DL-12-0001 in DRGR.

Comment 5

HUD Comment: HUD is committed to working with the grantee to resolve the DRGR flags. Most of the flags identified in the draft audit report do not reflect compliance concerns and are unrelated to slow spending.

OIG Recommendation 1E: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Require updated projections for grants B-12-MT-01-0001, B-13-MS-36-0002, and B-16-DL-12-0001 and help the grantees to ensure that the expenditure deadlines will be met.

Comment 6

HUD Comment: HUD will review the projections for these grants and determine if updated projections are required.

OIG Recommendation 1F: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Update its policies and procedures to require grantees to identify the reason for any variances between the actual and projected expenditures to enhance CPD's oversight.

Comment 7

HUD Comment: HUD is committed to improving documenting the variances between the actual and projected expenditures to enhance CPD's oversight. However, the Department would like to emphasize that projections should not be used as a benchmark to determine whether a grantee is on target to meet deadlines. Projections are created, in most cases, at the very beginning of the grant and often with the submission of the action plan. The purpose of the projections is to provide the public with an estimate of recovery disbursements and outcomes, while the Quarterly Performance Report (QPR) provides the public with actual outcomes and expenditures. Although grantees have no requirement to explain the variances between their projections and actuals, HUD understands that it is sometimes difficult to determine a variance exists. Therefore, recent enhancements in the DRGR system will allow grantees to enter projections in the action plan, and the system will display the actuals as vouchers are processed. This feature will be available for grants allocated in FY22 and forward.

OIG Recommendation 1G: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Update monitoring exhibits 6-1 to include (1) reasons for differences between actual and estimated projections and (2) a question to determine whether the grantee is meeting the timelines established and if the timelines are not met, providing reasons.

Comment 8

HUD Comment: The Department is committed to improving oversight of grantee projections and will review the proposed edits to the Monitoring exhibits to determine if the questions can be added. Monitoring exhibits reflect the requirements outlined in the *Federal Register* notices that govern each allocation of funds, and therefore HUD will need to determine if the recommended changes are allowable.

OIG Recommendation 1H: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Update policies and procedures to require CPD staff to sufficiently documents its basis for conclusions to meet the monitoring handbook and QPR checklist requirements and intentions.

Comment 9

HUD Comment: HUD will review recent monitoring exhibits to determine if additional training is required to improve staff responses and better document the basis for conclusions. Additionally, the Department is currently working on improvements to the QPR checklist, which will be effective in FY22.

OIG Recommendation 1I: [We recommend that that the Deputy Assistant Secretary for Grant Programs require CPD to] Consider suggestions made by grantees to assist with the progress of spending funds and provide the support for the guidance it plans to share with grantees based on these suggestions (see bullets under Grantees Generally Considered CPD's Assistance with the Progress of its Grants Helpful).

Comment 10

HUD Comment: HUD is committed to incorporating suggestions made by grantees to assist with the progress of spending funds. Also, we are committed to providing guidance for grantees based on these suggestions.

Should you have any questions regarding these draft audit report comments, please do not hesitate to contact Tennille Parker at Tennille.S.Parker@hud.gov.

OIG Evaluation of Auditee Comments

Comment 1 HUD CPD stated that it was committed to updating policies and procedures consistent with several of our recommendations and in response to other recommendations, providing technical assistance and improving its slow-spending internal controls. However, HUD was concerned that our recommendations were not based on regulations and, therefore, were open to interpretation and not easily resolved.

We acknowledge HUD's commitment to improving its slow-spending internal controls and maintain that our recommendations provide opportunities to enhance HUD's oversight and monitoring tools. We will work closely with HUD during the audit resolution process to address the recommendations.

Comment 2 HUD CPD stated that it had developed a new methodology for the analysis of grantee spending, which more accurately reflected the stages of the grant life cycle. HUD expected to begin releasing reports under the new methodology in the first quarter of fiscal year 2022.

We acknowledge HUD's effort in revising its methodology and plans to release the reports in the beginning of fiscal year 2022.

Comment 3 HUD CPD stated that it planned to update the DRSI procedures guidebook to include the new slow spender methodology, reporting process, and steps to provide technical assistance when applicable. However, HUD did not believe that requiring a plan of action from the grantee would expedite grantee spending but, rather, could result in additional administrative burden.

We recognize HUD's efforts to update its DRSI procedures guidebook and acknowledge HUD's concerns. However, requiring a plan to address slow spending is important to understand the steps or actions the grantee is taking to address its challenges and move forward with its grant activities. The grantee's plan will also help in assessing whether the grant is progressing when following up or monitoring the grantee and will enhance the grantee's accountability.

Comment 4 HUD CPD stated that addressing the DRGR flags was not a statutory, regulatory, or Federal Register notice requirement and that this tool was introduced to assist grantee and HUD users with the review of action plans and identify potential issues. HUD also indicated that it recognized the flags as a quality control tool and that all flags must be resolved before closing out the grant.

While we understand that flags must be resolved before grant closeout, these flags should be resolved in a timely manner to be an effective quality control tool. During our audit, we found one case in which the flags were initiated during 2018 and 2019 and as of October 28, 2021, these flags had not been resolved or

remediated. Leaving flags unresolved or unattended contradicts the objective of the tool. Therefore, for the flags to be helpful they must be addressed in a timely manner (as soon as possible) or at minimum, include a remediating comment regarding when the grantee plans to address the flag.

Comment 5 HUD CPD stated that it would work with the grantees to resolve the DRGR flags and noted that most of the flags identified in the draft audit report did not reflect compliance concerns and were not related to slow spending.

We acknowledge HUD's commitment to work with the grantees to resolve the DRGR flags. The flags identified in the draft audit report included both compliance and at-risk flag types related to slow spending. For example, we found that three grants were flagged with concerns (at risk) related to the grant's timely expenditure of funds because the grant had not spent a certain percentage of drawdowns. Therefore, the flag represented a concern with the progress of spending. Further, HUD guidance recognized that these flags were related to slow spending because HUD's DRGR System Flags Guidance[25] recommended that the grantee explain the reason for "slow spending" and its plan for meeting the applicable expenditure deadline. It also recommended that HUD work with the grantee to ensure that the expenditure deadlines were met.

Comment 6 HUD CPD stated that it would review the spending projections for the grants in the audit report and determine whether updated projections were required.

We acknowledge HUD's efforts to review spending projections. However, according to Federal Register notices at 82 FR 36812, and 81 FR 83254, the projections also need to be updated to allow for better tracking of projected versus actual expenditures.

Comment 7 HUD CPD asserted its commitment to improving its documenting of the variances between the actual and projected expenditures to enhance CPD's oversight. However, CPD also explained that projections provide the public with an estimate of recovery disbursements and outcomes but should not be used as a benchmark to determine whether the grantee is on target to meet deadlines. CPD added that recent enhancements in the DRGR system will allow grantees to enter projections in the action plan and the system will display the actuals as vouchers are processed.

We acknowledge HUD's commitment to improving the documentation of variances between actual and projected expenditures. As stated in Federal Register notices 77 FR 22583, 82 FR 36812, and 81 FR 83254, projections enable HUD, grantees, and the public to track proposed versus actual expenditures in coordination with the QPR. Thus, this tool could serve as a means to obtain a status on grant performance and identify potential issues when there are variances.

[25] DRGR Flags Guidance, Version 2.0, January 2020

As part of identifying these variances, providing reasons for existing variances will help the public and reviewers understand a grantee's challenges and help HUD work with the grantee to ensure resolution and timely expenditure of funds.

Comment 8 HUD CPD stated that it was committed to improving its oversight of grantee projections and would review our proposed edits to the monitoring exhibit to determine whether they can be added, based on requirements in relevant Federal Register notices.

We acknowledge HUD's efforts and will work with HUD during the audit resolution process to address the recommendations.

Comment 9 HUD CPD stated that it would review recent monitoring exhibits to determine whether additional training is necessary to improve staff responses and better document the basis for conclusions. In addition, HUD indicated that it was working on improvements to the QPR checklist that would be effective in fiscal year 2022.

We acknowledge HUD's efforts to enhance the use of its monitoring exhibits and improve the QPR checklist.

Comment 10 HUD CPD stated that it was committed to incorporating suggestions made by grantees to assist with the progress of spending funds and providing guidance to grantees based on these suggestions.

We acknowledge HUD's commitment to incorporating grantee input into its guidance and assistance to grantees.

Appendix B

Description of CPD Oversight Tools and Key OIG Suggestions