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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Opportunities Exist for CPD To Improve Collection of Disaster Recovery Grantee Data for Non-Federal Match Activities

Interim Report Number: 2025-FW-0801
February 28, 2025

Background

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG) is auditing the use of Community Development Block Grant Disaster Recovery (CDBG-DR) funds as non-Federal match for the Federal Emergency Management Agency's (FEMA) Public Assistance Program. Our objectives are to determine whether four CDBG-DR grantees made improper payments and whether the Office of Community Planning and Development's Office of Disaster Recovery (CPD ODR) had sufficient and adequate controls to prevent improper payments.¹ While performing this work, we identified an issue that was outside the scope of our current work and requires prompt attention from CPD ODR. The objective of this interim report is to notify CPD ODR officials of the issue so they can take immediate action.

Since 2001, Congress has allocated almost \$98 billion in CDBG-DR grants and CDBG Mitigation grant funds² to CPD to assist grantees in recovering from the impacts of federally declared disasters. CPD allows grantees to use their awarded disaster recovery funds to fulfill all or a portion of the cost share requirement of programs administered by other Federal agencies such as FEMA, the Federal Highway Administration (FHWA), or the U.S. Army Corps of Engineers (USACE). Cost share, also known as the "non-Federal share" or "match" is the portion of the costs of a federally assisted project or program not borne by the Federal Government.³ Each agency establishes a minimum cost share for project activities, which can typically range from 10 percent to 25 percent of the total costs. All project activity costs must be for eligible costs in direct support of the approved activity. As grantees may receive reimbursement for one activity's costs from two Federal agencies, these disaster recovery non-Federal match activities present a high-risk for improper payments.

CPD developed the Disaster Recovery Grants Reporting (DRGR) system for the disaster recovery program. HUD staff use the DRGR system to review grant funded activities, prepare reports to Congress and other interested parties, and monitor program compliance. Grantees use the system to access their disaster recovery funds and to report performance accomplishments for their grant-funded activities. DRGR also allows grantees to report match and other leveraged sources of funds. When populating an activity's financial tab in DRGR, a grantee may enter a funding source's name, a funding type, whether the funds are matching funds, and the total amount funded by the other funding source. Further, DRGR's quarterly performance report shows for each activity (1) the amount of other funds for the current reporting period and (2) the amount of other funding to date for the grant, for both match and nonmatch funds.

We are conducting our work 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 contained in this report. We are issuing this interim report because we believe that identifying non-Federal match data is a

¹ The current audit assignment is titled "CDBG-DR Non-Federal Matching Funds." Payments that should not have been made or that were made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements are considered improper.

² These funds are collectively referred to as disaster recovery funds in this report.

³ As stated, CPD grantees may use their disaster recovery funds as the non-federal cost share if they administer other federal programs with a cost share requirement.

matter that requires CPD's prompt attention to avoid potential improper payments and to provide important information to CPD for use in its oversight of disaster recovery grantees.

Opportunities Exist for CPD To Improve Collection of Disaster Recovery Grantee Data for Match Activities

We determined that CPD does not collect accurate, reliable financial and activity data related to activities in which disaster recovery funds were used to satisfy the matching requirement for other Federal, State, or local programs (match activities). In our ongoing audit, our sample of four disaster recovery grantees either did not report or reported incomplete information related to their match activities. This condition occurred because CPD recommends but does not require that such information be reported. Therefore, there is a risk of incomplete or inaccurate reporting of match activity data for the remaining 75 active disaster recovery grantees. Due to the increased fraud risk that match activities may result in the possible duplication of payments for the same expenses, the collection of this information would be valuable to HUD's fraud risk management program. Requiring this data would also assist HUD in advancing its data analytics strategy and could result in the prevention and detection of potential improper payments or fraud in this area. Additionally, it would provide increased transparency and could improve HUD's overall grantee oversight.

CPD Lacks Non-Federal Match Data for Disaster Recovery Grantees

As of August 12, 2024, DRGR reported that 79 active grantees had 227 grants,⁴ which totaled more than \$94.8 billion. During our audit of the use of disaster recovery funds for the matching requirements of the FEMA Public Assistance Program, we found that grantees did not consistently enter non-Federal match financial and activity data into DRGR. For instance, even though 34 grantees (43 percent) indicated in DRGR that they were using more than \$1.2 billion in disaster recovery funds for matching requirements in other Federal programs, 12 of the 34 grantees (35 percent) did not report any amounts toward these requirements. Further, for the 22 that did report matching amounts, CPD lacks assurance that these grantees completely and accurately reported all their match activities. In addition, some of the remaining 45 grantees⁵ that did not indicate that they were using funds toward matching requirements for other programs could have unreported activities and amounts, since CPD does not require the reporting of this information.

Further, in our ongoing audit, we reviewed 4 of the 79 active grantees that had non-Federal match activities. We identified that two of the four grantees did not report any non-Federal match amounts in DRGR, while they confirmed disaster recovery funded non-Federal match activities totaling more than \$401 million. The other two grantees in our audit sample reported some amounts in DRGR as match activities, but they did not report more than \$512 million in additional non-Federal match activity amounts. Therefore, the amount of match activity funding for these four grantees was incomplete and not reliable. By not requiring grantees to enter this funding data, HUD cannot consistently track these funds, which increases the risk of HUD paying for the same activity costs paid by another Federal agency.

⁴ These 227 grants cover disasters occurring from 2001 through 2018 and do not include closed grants.

⁵ Remaining 45 grantees' calculation: 79 total grantees less 34 grantees that indicated in DRGR that they used their disaster recovery funds as non-Federal matching funds.

CPD Does Not Require Grantees To Report Non-Federal Match Data

Although DRGR is designed to track other sources of funding of grantees' disaster recovery activities, including match funding, grantees are not consistently reporting these data because CPD's guidance recommends but does not require it. DRGR has the capacity to capture this information, including the name of the funding source, the funding type, whether the funds are matching funds, and the amount of funds provided. Collecting this information within DRGR is valuable and could assist in improving CPD's grantee oversight and fraud risk management activities, including the prevention and detection of improper payments.

Conclusion

CPD does not have a complete understanding of the number or funding amount of match activities that its grantees have undertaken because it does not require data related to match activities to be reported. Therefore, all disaster recovery grantees may not be consistently reporting non-Federal match funds. Due to the increased risk of duplication of payments related to match activities, the collection of this information is valuable for improving HUD's use of data analytics for the prevention and detection of fraud risks and improper payments.


Recommendation

We recommend that the Director of CPD's Office of Disaster Recovery

- 1A. Require active disaster recovery grantees to report in DRGR other sources of funding used for non-Federal match activities.
- 1B. Develop and implement internal controls to ensure that grantees completely and accurately report non-Federal match activities in DRGR.

Appendix A – Auditee Comments and OIG’s Evaluation

Ref to OIG Evaluation – Auditee Comments



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

OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT

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

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

SUBJECT: HUD Comments for OIG Draft Audit Report – *Opportunities Exist for CPD To Improve Collection of Disaster Recovery Grantee Data for Match Activities*

The Office of Community Planning and Development (CPD) has reviewed the draft audit report of the Office of Disaster Recovery (ODR). CPD offers the following comments on the draft audit report for consideration.

The HUD Office of Inspector General (OIG) conducted a review of the use of Community Development Block Grant Disaster Recovery (CDBG-DR) funds as non-Federal match for the Federal Emergency Management Agency’s (FEMA) Public Assistance (PA) Program. The OIG draft report indicated that CPD does not have a complete understanding of the full scope of match activities undertaken by CDBG-DR grantees. Additionally, the report noted that CPD must improve data collection and analytics for the prevention and detection of fraud risks and improper payments related to match programming.

Generally, CPD agrees with the spirit of the audit recommendations from the OIG regarding the need for oversight and using tools at the disposal of the Department to ensure grantees’ proper use of all federal funding sources. CPD’s position, however, is that there is no regulatory requirement for grantees to use a specific format to report whether funds are used to match FEMA PA or other program funds. CPD is responsible for interpreting and implementing regulatory requirements mandated by HUD programs, not that of another federal agency, as those requirements can vary tremendously. Additionally, this would be an added administrative and reporting burden on both grantees and the Disaster Recovery Grant Reporting (DRGR) system. After the completion of this HUD OIG audit, CPD is willing to explore how HUD’s existing reporting and monitoring requirements can enhance the Department’s oversight of eligible activities, including when those activities include non-federal match.

Furthermore, the Department manages improper payment risks through legislative requirements set forth in the Payment Integrity Information Act of 2019 (PIIA) and HUD’s oversight tools. According to the PIIA, agencies are required to identify, report and reduce improper payments. The PIIA risk assessment, facilitated by the Office of the Chief Financial Officer, helps to identify programs that are high risk by looking at improper payments, fraud and overall program risks. ODR conducted PIIA Risk Assessments in FY 2021, FY 2022, and FY 2023 consecutively in which each year the CDBG-DR program was below the established overpayment threshold and had no findings respectively. Furthermore, ODR is currently

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Comment 1 >

Comment 1 >

Ref to OIG Evaluation – Auditee Comments

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Comment 1 >

conducting the FY 2025 PIA Risk Assessment for the FY 2024 program. The Department also manages improper payment risks using tools such as monitoring activities, advising grantees to include backup documentation in their files, and leveraging other tools like guidance documents and training. According to the recordkeeping requirements at 24 CFR 570.493 and 570.506, the grantees must establish and maintain adequate records to enable HUD and oversight agencies to make compliance determinations through monitoring and other oversight activities. Grantees are required to have duplication of benefits calculations in their files for each project it funds, including any activities that receive FEMA assistance, available for the Department’s review.

Comment 2 >

The existing functionality to report on matching funds in the DRGR was added for the National Disaster Resilience (NDR) competition under Public Law 113-2, which did have a matching requirement. Generally, for CDBG-DR funds, reporting on leveraged funds or other funds in DRGR has only been an option for grantees, and was never a required reporting criterion. That information was then used by HUD to verify if the CDBG-NDR grantees met the requirements of the NDR competition grant.

Comment 1 >

Lastly, requiring grantees to report this information may not have the OIG’s desired results due to FEMA’s *Implementation Guidance for Use of Community Development Block Grant Disaster Recovery Funds as Non-Federal Cost Share for the Public Assistance Program*¹ and the flexible match implementation. For example, CDBG-DR may be used to fund 100 percent of a project site, which would be reflected in DRGR, but FEMA may consider that investment as meeting the match requirements for all the projects in one project worksheet (PW). As such, CPD’s data in DRGR should not be considered as an accounting system or a way for other federal agencies to track their match requirements. It is also why the OIG’s recommendation may not have the desired outcome of being able to track data in DRGR of which CDBG-DR amounts match to specific FEMA PWs. However, as required by any other CDBG-DR expenditure, grantees must keep this documentation in their files for review by the appropriate entities.

Comment 1 >

Identification of when CDBG-DR funds are being used as match funding is usually contained in narrative form via Action Plans and Quarterly Performance Reports (QPR) submissions. Through monitoring reviews, HUD evaluates the information in the grantee system and files for verification of the compliant use of federal funds identified for each activity.

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

OIG Finding 1: Opportunities Exist for CPD To Improve Collection of Disaster Recovery Grantee Data for Match Activities

OIG Recommendation 1A: Require active disaster recovery grantees to report in DRGR other sources of funding used for non-Federal match activities.

Comment 2 >

HUD Comment: CPD acknowledges that the existing CDBG-DR funding does not have a match requirement. The mechanism for reporting match activities in the DRGR system (referred

¹ <https://www.hud.gov/sites/dfiles/OCHCO/documents/2020-10cpdn.pdf>

Ref to OIG Evaluation – Auditee Comments

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Comment 2 >

to in the interim report) was developed and implemented by CPD for grantee reporting of CDBG-NDR activities that do have match requirements. As the DRGR reporting system is limited in its capacity, currently serving various programs in CPD and with a backlog of maintenance and development work orders, the use of this system to require additional reporting is not practical.

Comment 2 >

Many activities across ODR's portfolio are laden with hundreds, if not thousands, of individual FEMA project worksheets that, in and of themselves, will be billed to one or more federal funding sources. This information is recorded in narrative form through QPR submissions and action plans, as well as identified and reviewed by ODR's grant managers through on-site monitoring and access to grantee accounting systems.

OIG Recommendation 1B: Develop and implement internal controls to ensure that grantees completely and accurately report non-Federal match activities in DRGR.

Comment 3 >

HUD Comment: ODR actively maintains oversight of CDBG-DR grantees' activity funding sources, payments, and other compliance areas. ODR conducts risk analyses on an annual or bi-annual basis, which informs ODR's monitoring calendar for the fiscal year. Grantees are monitored for compliance with all applicable laws and regulations, including proper payments and the recording of matched funding. While the complexities of matched funding make reporting directly in DRGR impractical, ODR is aware of match activities and does conduct oversight of grantee payments to ensure that duplicate payments are not fraudulently made with CDBG-DR funding and other federal funding for the same costs. These reviews are conducted following existing Risk Analysis and CPD Monitoring Handbook requirements. Additionally, HUD and FEMA worked together extensively to provide guidance to CDBG-DR grantees on non-federal match and the concept of flexible match. The implementation guidance cited above includes considerable guidance and advice on how grantees must work to satisfy both the requirements of the FEMA PA program and HUD's CDBG-DR requirements, including their recordkeeping responsibilities. HUD and FEMA also provided a training that walked grantees through the document and explained some of the key details grantees must know when using CDBG-DR as match.²

Comment 3 >

It is CPD's position that proper oversight is not only possible, but practical and currently existent, through ODR's monitoring strategies and available guidance. Other federal funding sources often update match requirements and grantees are faced with developing project costs throughout the lifetime of an activity. Therefore, ODR's current oversight is not improved by requiring that grantees report matched funding in the DRGR system, other than details that grantee already includes as part of their activities narrative.

Should you have any questions regarding these draft audit report comments, please do not hesitate to contact Shantelle C. Dale at Shantelle.C.Dale@hud.gov.

² <https://www.hudexchange.info/trainings/courses/cdbg-dr-mit-webinar-series-use-of-cdbg-dr-funds-as-non-federal-cost-share-for-fema-pa-program/3807/>

OIG Evaluation of Auditee Comments

Comment 1 CPD agreed with the spirit of the audit recommendations but stated that there is no regulatory requirement for grantees to use a specific format to report whether funds are used to match FEMA Public Assistance (PA) funds or other program funds. It also stated it is responsible for interpreting and implementing regulatory requirements mandated by HUD programs and not that of another federal agency. Further, it stated that HUD manages improper payments through the legislative requirements in the Payment Integrity Information Act of 2019 (PIIA) and HUD's oversight tools. Additionally, CPD stated that the recommendation would be an added administrative and reporting burden on both grantees and the Disaster Recovery Grant Reporting (DRGR) system and that requiring grantees to report may not have the desired result due to FEMA's flexible match implementation. CPD expressed its willingness to explore how HUD's existing reporting and monitoring requirements can enhance the Department's oversight of eligible activities, including when those activities include non-Federal match.

We appreciate that CPD agreed with the spirit of the report and its willingness to explore enhancing its oversight of non-Federal match activities. While HUD has not established general match reporting requirements for Disaster Recovery grantees, the Department, and CPD, are broadly responsible for mitigating the risk that its grantees' activities result in improper payments, or the risks of fraud, waste, and abuse, per *OMB Circular A-123, Management's responsibility for Enterprise Risk Management (ERM) and Internal Control*. OMB Circular A-123 also speaks to addressing fraud risk and developing risk tolerance in disaster situations. Further, a provision of the Payment Integrity Information Act of 2019 (PIIA), codified at 31 U.S.C 3357, requires OMB to maintain guidelines for agencies to establish financial and administrative controls to identify and assess fraud risks and that incorporate leading practices from *GAO's Fraud Risk Framework*. Moreover, GAO issued report *GAO-23-104382, Disaster Recovery: HUD Should Develop Data Collection Guidance to Support Analysis of Block Grant Fraud Risks*, which reported the risk of duplication of benefits between HUD and FEMA assistance and recommended that HUD develop guidance to collect data to facilitate identifying risks in the Disaster Recovery program to better support fraud risk management. Tracking match funds in the DRGR system will provide CPD with useful data that it can use for oversight of match activities and assessing improper payment and fraud risks. Prior HUD OIG reports have identified the risk of improper payments in the CDBG-DR program, most recently in the HUD OIG report such as *2023-FW-1002, The Virgin Islands Housing Finance Authority's Administration of Its Non-Federal Match Program Had Weaknesses*, in which we cite weaknesses that increase the risk of improper payments occurring in the grantee's match program.

Further, collecting this data would be a positive step towards improving HUD's fraud risk management maturity in the Disaster Recovery program and the Department overall. HUD has made progress towards improving its fraud risk management

maturity over the last several years; however, it has yet to implement a data analytics strategy for the Department, let alone CPD. Collecting this data and conducting analysis would also give CPD valuable insight into whether, and how, grantees are meeting match requirements using FEMA's flexible match implementation, and it would enable CPD leadership to make data driven decisions as it identifies high risk areas and target grantees for monitoring.

Comment 2

CPD noted the existing CDBG-DR funding does not have a match requirement and the mechanism for reporting match activities in the DRGR system was developed and implemented for another HUD program's match requirements. Further, it said that the DRGR reporting system was limited in its capacity, currently served various programs in CPD, and had a backlog of maintenance and development work orders, which makes the use of DRGR system to require additional reporting not practical. CPD also stated that many activities across its disaster recovery portfolio are laden with hundreds, if not thousands, of individual FEMA project worksheets. It said that match information was recorded in narrative form through QPR submissions and action plans, and reviewed by ODR's grant managers through on-site monitoring and access to grantee accounting systems.

We understand that CPD's DRGR system match reporting fields were created for another CPD program's match requirement. As DRGR already has these fields, it is not clear why it would be impracticable to use DRGR to collect match information. CPD's response indicates it did not know how many FEMA activities grantees had, since it states there could be hundreds if not thousands of project worksheets. Further, in an interview, a CPD official said DRGR would not show the total universe of how much grantees had spent on match. Lastly, CPD's method of basing its monitoring decisions on text in the QPR submissions is an unreliable and inefficient way to identify and monitor match activities as the match data is not reliably reported and would require a manual review to identify when there are match activities, which is inefficient and time intensive. Collecting this data would be beneficial to CPD by allowing for an efficient and effective mechanism to identify the prevalence of match activities in order to make data driven decisions as it evaluates risk in its portfolio and the level of oversight activities necessary to mitigate risks. We will work with HUD during the audit resolution process to ensure that the recommendation to require active grantees to report sources of funding for non-Federal match activities is appropriately addressed.

Comment 3

CPD's position is that its current oversight through monitoring strategies and available guidance is proper and practical. Further, it did not feel that its oversight would be improved by reporting matched funding in the DRGR other than details that grantees provide as part of activities' narratives.

We believe that opportunities exist to enhance CPD's current oversight strategies, and that existing strategies alone are not sufficient to address fraud and improper payment risks in the program. Because grantees are not currently required to report match data, CPD does not have a clear understanding or sufficient data to

determine how many match activities its grantees have or the amount its grantees spend on match activities. In addition to other actions taken, CPD's process of incorporating its Disaster Recovery Universal Notice in Federal Register notices and including modified requirements implementing future Disaster Recovery programs is an opportunity to address match reporting requirements in future Disaster Recovery grants. Data collection and analysis techniques on data related to existing match activities will provide HUD and CPD with valuable information that will help inform the level of improper payment and fraud risks that exist in the Disaster Recovery portfolio and how that information is considered when determining monitoring and oversight activities of its Disaster Recovery grantees. We will work with CPD during the audit resolution process to ensure that the internal controls recommendation is fully addressed.