



**The U.S Department of Housing and Urban
Development, Washington, DC**

**Controls Over the Timeliness of CDBG
Entitlement Spending**



Issue Date: July 19, 2013

Audit Report Number: 2013-NY-0003

TO: Yolanda Chavez
Deputy Assistant Secretary for Grant Programs, DG

Edgar Moore
FROM: Edgar Moore
Regional Inspector General for Audit, New York-New Jersey, 2AGA

SUBJECT: HUD Officials Did Not Always Monitor Grantee Compliance With the CDBG
Timeliness Spending Requirement

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our internal audit of HUD's monitoring of grantee compliance with the Community Development Block Grant (CDBG) timeliness spending requirements.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (212) 264-4174.



July 19, 2013

HUD Officials Did Not Always Monitor Grantee Compliance with the CDBG Timeliness Spending Requirement

Highlights

Audit Report 2013-NY-1003

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) monitoring of grantee compliance with the Community Development Block Grant (CDBG) timeliness spending requirement. The objectives of the audit were to determine whether HUD's guidance for ensuring compliance with the CDBG entitlement spending requirement had been implemented effectively by the field offices; specifically, whether HUD needs to implement additional program guidance to ensure a standardized process by which grantees are monitored by their field offices.

What We Recommend

We recommend that the Deputy Assistant Secretary for Grant Programs (1) strengthen controls over procedures relating to the HUD Entitlement Communities Division monthly timeliness report, (2) strengthen CDBG timeliness spending grantee notification procedures to ensure that the notification of new untimely grantees becomes a higher priority, (3) establish procedures requiring documentation of its rationale for not sanctioning grantees not complying with the CDBG timeliness spending requirement, and (4) establish procedures pertaining to grantees that minimally do not comply with the timeliness spending requirement.

What We Found

HUD's guidance for ensuring compliance with the CDBG timeliness spending requirement was not always implemented effectively by local HUD offices. Although there was an increase in the number of grantees not complying with HUD's CDBG timeliness test, HUD officials did not always formally identify and notify grantees. In addition, HUD officials did not adequately document their rationale for not sanctioning untimely grantees. We attribute this deficiency to the untimely preparation of timeliness monitoring reports by HUD's Entitlement Communities Division, a lack of prioritization of responsibilities at the local HUD field office level, and inadequate procedures pertaining to HUD's sanctioning policy for untimely grantees. As a result, more than \$8.3 million in CDBG funds that could have been reduced from the subsequent years funding of ten untimely grantees was not. Therefore, if the ten untimely grantees' subsequent year's funding is reduced following a decision made by HUD officials after an informal consultation with the grantees, and OIG recommendations to improve procedures to prevent this condition from recurring are implemented, these funds can be put to better use.

TABLE OF CONTENTS

Background and Objectives	3
Results of Audit	
Finding: HUD Procedures To Ensure Grantee Compliance With the Timeliness Spending Requirement Had Weaknesses	4
Scope and Methodology	12
Internal Controls	13
Appendixes	
A. Schedule of Funds To Be Put To Better Use	15
B. Auditee Comments and OIG's Evaluation	16

BACKGROUND AND OBJECTIVES

The Community Development Block Grant (CDBG) program was established by Title I of the Housing and Community Development Act of 1974, Public Law 93-383 as amended, 42 U.S.C. (United States Code) 5301, to provide communities with resources to address a wide range of unique community development needs. The program provides grants on a formula basis to entitled States, cities, and counties to develop viable urban communities by providing decent housing, suitable living environments, and expanding economic opportunities, principally for persons of low and moderate income. Entitlement grantees¹ have the flexibility to develop their own programs and funding priorities. However, to be eligible for funding, every CDBG-funded activity, other than program administration and planning, must meet one of the program's three national objectives: (1) benefit low- and moderate-income persons, (2) aid in preventing or eliminating slums or blight, or (3) address a need with a particular urgency that poses a serious and immediate threat to the health and welfare of the community for which other financial resources are not available to meet such needs. The CDBG program provides annual grants on a formula basis to 1,209 general units of local government and States.

A January 2001 CDBG Timeliness Bulletin provides that as part of the mandate from Congress to administer the CDBG program, U.S. Department of Housing and Urban Development (HUD) officials are required to determine annually whether each CDBG entitlement grantee is carrying out its activities "in a timely manner." HUD officials became concerned when the number of grantees not complying with the timeliness provision significantly increased since slow implementation of activities delays the delivery of program benefits to the neediest in the community. As a result, HUD officials implemented the following controls to address the CDBG timeliness spending concern: (1) advising grantees and HUD staff of the priority HUD places on the timely drawdown of CDBG funds, (2) creating a mechanism in HUD's computer-based Integrated Disbursement and Information System (IDIS)² that grantees can use to check up on their own timeliness, (3) providing technical assistance to grantees to improve the timely performance of their individual grant programs, and (4) convening a series of conferences with workshops on various topics that affect timely performance. Additional guidance was issued in 2004 by the Deputy Assistant Secretary for Grant Programs pertaining to the notification of grantees that become noncompliant with the timeliness spending requirement. This guidance stressed the importance of untimely grantee notification by the local HUD offices and the sanctioning policy for consecutive-year untimely grantees.

The objectives of the audit were to determine whether HUD's guidance for ensuring compliance with the CDBG entitlement spending requirement had been implemented effectively by the field offices. Specifically, we wanted to determine whether HUD needs to implement additional program guidance to ensure a standardized process by which grantees are monitored by their field offices.

¹ Entitlement grantees are the applicable State, City, or County recipients of HUD CDBG entitlement funds awarded on a formula basis.

² HUD's Integrated Disbursement and Information System (IDIS) is a nationwide database of current information regarding CDBG activities across the nation, including funding and accomplishment data. HUD uses this information to report to Congress and to monitor grantees.

RESULTS OF AUDIT

Finding: HUD Procedures To Ensure Grantee Compliance With the Timeliness Spending Requirement Had Weaknesses

HUD's guidance for ensuring compliance with the CDBG timeliness spending requirement was not always implemented effectively by local HUD offices. Although there was an increase in the number of grantees not complying with HUD's CDBG timeliness test, HUD officials did not always formally identify and notify grantees. In addition, HUD officials did not adequately document their rationale for not sanctioning untimely grantees. We attribute this deficiency to the untimely preparation of timeliness monitoring reports by HUD's Entitlement Communities Division, a lack of prioritization of responsibilities at the local HUD field office level, and inadequate procedures pertaining to HUD's sanctioning policy for untimely grantees. As a result, more than \$8.3 million in CDBG funds that could have been reduced from the subsequent years funding of ten untimely grantees as part of HUD's sanctioning policy was not. Therefore, if the ten untimely grantees' subsequent year's funding is reduced following a decision made by HUD officials after an informal consultation with the grantees, and OIG recommendations to improve procedures to prevent this condition from recurring are implemented, these funds can be put to better use.

Increase in Grantee Noncompliance With the Timeliness Spending Requirement

Nationwide, there was an increase in the number of grantees not complying with the CDBG timeliness spending requirement; however, HUD officials did not always effectively monitor these grantees and identify the grantees that were noncompliant. Specifically, 4 of 37 new untimely grantees, or about 11 percent, that became noncompliant with the timeliness spending requirement were not notified of their noncompliance by the local HUD office.

Using IDIS, we identified an increase in the number of CDBG grantees exceeding the timeliness spending requirement nationwide compared to the prior 3 program years. Regulations at 24 CFR (Code of Federal Regulations) 570.902 state that before the funding of the next annual grant and absent contrary evidence satisfactory to HUD, HUD will consider an entitlement recipient to be failing to carry out its CDBG activities in a timely manner if (1) 60 days before the end of the grantee's current program year, the amount of entitlement grant funds available to the recipient under grant agreements but undisbursed by the U.S. Treasury is more than 1.5 times the entitlement grant amount for its current program year and (2) the grantee fails to demonstrate to HUD's satisfaction that

the lack of timeliness has resulted from factors beyond the grantee's reasonable control.

For the grantees' program year 2011 timeliness tests in IDIS, which occurred between November 2011 and October 2012, more than 13 percent of HUD's grantees exceeded this requirement. This was more than twice the amount for each of the prior 3 years' tests: 4.6 percent in program year 2010, 6.6 percent in program year 2009, and 5.7 percent in program year 2008.

In 2001, HUD officials issued guidance, which highlighted the reasons grantees were untimely. The guidance provided that there was no single reason why CDBG grantees were untimely in carrying out activities and that a variety of reasons caused untimeliness, including (1) staff turnover and vacancies in key positions, (2) inexperienced operating agencies, (3) bankrolling of CDBG funds for larger projects, (4) failure to draw funds regularly, and (5) complicated local review or approval processes required for CDBG draws. Our review of 15 untimely grantees administered by four different local HUD field offices determined that the same causes for untimeliness continued to exist with additional factors, including the lack of proper prioritization of responsibilities at the local HUD field office level and reduced annual CDBG entitlement awards. Competing priorities and a lack of proper emphasis on grantee oversight for compliance with the timeliness spending requirement contributed to this nationwide increase. Also, the grantee's reduced annual funding level resulted in higher timeliness ratios, as the denominator for computing the timeliness ratio had decreased due to lower annual funding.

Grantees Not Notified of Noncompliance With the Timeliness Spending Requirement

According to the instructions for HUD's Monthly Timeliness Report for CDBG Program Entitlement Grantees, dated October 2006, HUD's Entitlement Communities Division is responsible for generating a monthly timeliness report to assist the local HUD field offices in the monitoring of grantees for compliance with the timeliness spending requirement. In reviewing this report, we determined that four grantees were not adequately monitored by their local HUD field offices for compliance with the timeliness spending requirement. As a result, HUD officials could not pursue HUD's sanctioning policy. Specifically, 4 of 37 new untimely grantees, or about 11 percent, were not notified by the local HUD field office of their noncompliance with the requirements of 24 CFR 570.902. According to HUD policy, if a grantee is not notified within 30 days of its timeliness test, legally, HUD cannot pursue sanctions. The four local HUD field offices that did not properly notify grantees included New York, Philadelphia, Miami, and Greensboro.

The HUD Entitlement Communities Division monthly timeliness report is one of two reports available to local HUD field officials to use in monitoring grantees for compliance with the timeliness spending requirement. The other is the CDBG Entitlement Communities Timeliness Report (PR56) from IDIS. While the CDBG Entitlement Communities Timeliness Report is always available to HUD field officials in IDIS, the monthly timeliness report is prepared by HUD headquarters officials and is not always sent to local HUD field officials in a timely manner. For example, the May 2011 report was not prepared by Entitlement Communities Division officials until the last day of the month. In addition, the reports were not sent for the months of June, July, or August 2011. While some local HUD offices rely primarily on the CDBG Entitlement Communities Timeliness Report in IDIS to monitor grantees' spending, others consider the monthly timeliness report from headquarters to be the official record for determining a grantee's timeliness. A delay in the receipt of this report would delay officials in notifying a grantee of its untimeliness. For example, the County of Montgomery, PA, was a new untimely grantee in August 2011 and had not been notified of its untimeliness by the local HUD office. The August 2011 monthly timeliness report was not prepared for the local HUD field offices in 2011. More than 20 percent of HUD's CDBG entitlement grantees had tests in June through August, the period when HUD Entitlement Communities Division officials did not prepare monthly timeliness reports.

As a result of inadequate monitoring of these four untimely grantees, more than \$5.6 million in CDBG entitlement funds that could have been subject to a reduction in the grantees' subsequent years' funding following a decision made by HUD officials after an informal consultation with the grantees, was not. As shown below, the four grantees exceeded the timeliness requirement for the program year 2011 timeliness test in IDIS by more than \$5.6 million, which included the tests conducted during the period November 2011 through October 2012.

Grantees that were not notified of untimely CDBG spending

Grantee	State	Local HUD field office	60- day ratio³	Grant amount⁴	Total funds available	Amount over 1.5⁵
Kingston	NY	New York	1.56	\$742,330	\$1,161,202	\$44,540
Winston-Salem	NC	Greensboro	2.08	\$1,703,423	\$3,538,136	\$987,985
Montgomery County	PA	Philadelphia	1.92	\$3,332,776	\$6,396,230	\$1,399,766
Miami	FL	South Florida	1.93	\$7,503,156	\$14,481,091	\$3,226,357
Total						\$5,658,648

Inadequate Documentation of Reasons for Exempting Grantees from Sanctions

We reviewed the 11 grantees that were consecutive-year noncompliant with the timeliness spending requirement as of the program year 2011 timeliness test in IDIS. For these grantees, we reviewed the briefing packages for informal consultation with the Deputy Assistant Secretary and the postconsultation letter from the Deputy Assistant Secretary to grantee officials regarding sanctions.

HUD officials did not adequately document the rationale for not sanctioning untimely grantees. Specifically, HUD’s postconsultation letters to its grantees did not explain why the Deputy Assistant Secretary exempted grantees from HUD’s sanctioning. Although HUD officials had procedures in place to address grantees not complying with the timeliness spending requirement, these procedures did not require documentation of the Deputy Assistant Secretary’s justification for not sanctioning grantees and, therefore, were not adequate. This documentation is of particular importance in instances in which local HUD field office staff recommends that grantees be subject to sanctioning but the Deputy Assistant Secretary deems the grantee qualified for an exception. This condition occurred in 3 of the 11 grantee briefing packages reviewed.

³ This IDIS program year 2011 60-day ratio was computed between November 2011 and October 2012. It represents the amount of funds available to the grantee 60 days before its program year end and is calculated by dividing the grantee’s total funds available by its grant amount.

⁴ This represents the grantees’ program year 2011 CDBG grant award amount (the most recent award at the time the IDIS program year 2011 test was conducted).

⁵ The amount over 1.5 times the grantees funding award is calculated by subtracting 1.5 from the grantee’s 60-day ratio, then multiplying the difference by the grant amount.

In addition, HUD's procedures did not address grantees that were minimally over the timeliness spending requirement on the grantee's test date. For example, the City of Winchester, VA, exceeded the timeliness spending requirement for its timeliness test occurring on May 2, 2011. On this date, it had entitlement funds available of 1.57 times its annual CDBG award. However, HUD officials did not consider it to be noncompliant with the timeliness spending requirement for this test. HUD officials measured this grantee's spending level later in May 2011, after the grantee had become compliant. According to HUD officials, the grantee had a timeliness ratio of 1.39 when its timeliness was measured on May 23, 2011, and this became the ratio that was used to measure the grantee's timeliness in 2011. Allowing additional time for grantees minimally over the timeliness test on their test date was not addressed in the procedures, nor did the procedures identify an acceptable threshold that would be considered minimally over the timeliness spending requirement.

As shown below, there was more than \$2.7 million in CDBG entitlement funds from six untimely grantees that were either recommended by the local HUD field office for sanctioning or should have been scheduled for an informal consultation with HUD officials for possible sanctioning.

Grantees with untimely spending that were either recommended for sanctioning or should have had an informal consultation for possible sanctioning

Grantee	Local HUD field office	Reason for questioned cost	60-day ratio⁶	Grant amount⁷	Total funds available	Amount over 1.5⁸
Mount Vernon	New York, NY	Lack of documentation supporting exemption	2.07	\$1,650,649	\$3,421,422	\$940,870
Paterson	Newark, NJ	Lack of documentation supporting exemption	1.84	\$2,683,971	\$4,936,543	\$912,550
Newark	Newark, NJ	Lack of documentation supporting exemption	1.60	\$7,835,598	\$12,549,511	\$783,560
Winchester	Richmond, VA	Grantee was not subjected to sanctioning policy because it was minimally over the requirement	1.76	\$229,176	\$403,294	\$59,586
Passaic County	Newark, NJ	Grantee was not subjected to sanctioning policy because it was minimally over the requirement	1.52	\$950,250	\$1,448,252	\$19,005
Boynton Beach	South Florida	Grantee was not subjected to sanctioning policy because it was minimally over the requirement	1.51	\$479,344	\$722,185	\$4,793
Total						\$2,720,364

⁶ See footnote 3

⁷ See footnote 4

⁸ See footnote 5

Conclusion

HUD officials did not adequately identify grantees that did not comply with the timeliness spending requirement and did not adequately document their rationale for not sanctioning untimely grantees. Specifically, 10 grantees that became noncompliant with the timeliness spending requirement were either not notified of their noncompliance by the local HUD field office, or HUD officials did not adequately document their rationale for not sanctioning the grantees. HUD's postconsultation letters to its grantees did not explain why HUD officials exempted grantees from sanctioning. We attribute these deficiencies to the untimely preparation of timeliness monitoring reports by HUD Entitlement Communities Division officials, a lack of proper prioritization of responsibilities at the local HUD field office level, and inadequate procedures pertaining to HUD's sanctioning policy for untimely grantees. As a result, more than \$8.3 million in CDBG entitlement funds that could have been reduced from the subsequent years' funding of the 10 untimely grantees was not. Therefore, if these grantees' subsequent years' funding is reduced, following a decision made by HUD officials after an informal consultation with the grantees, and our recommendations to improve procedures to prevent this condition from recurring are implemented, these funds can be put to better use.

Recommendations

We recommend that the Deputy Assistant Secretary for Grant Programs

- 1A. Strengthen controls over the existing procedures relating to the HUD Entitlement Communities Division monthly timeliness report. Procedures should require the timeliness report to be sent to the local HUD field offices by a specific date each month. If our recommendations to improve procedures are implemented and grantees' subsequent years' funding is reduced, following a decision made by HUD officials after an informal consultation with the grantees, \$5,658,648 in questioned CDBG entitlement funds from the four untimely grantees can be put to better use.
- 1B. Strengthen the existing CDBG timeliness spending grantee notification procedures to ensure that the notification of new untimely grantees becomes a higher priority and explain to staff the importance of the notification process in the sanctioning policy.
- 1C. Document its rationale for not subjecting the six untimely grantees to its sanctioning policy, which could have required that \$2,720,364 in CDBG entitlement funds from these six untimely grantees subsequent years grant

funding be reduced. If OIG recommendations to improve procedures are implemented, these funds can be put to better use.

- 1D. Establish procedures requiring documentation of its rationale for not sanctioning grantees not complying with the CDBG timeliness spending requirement.
- 1E. Establish procedures on how to handle grantees that are minimally noncompliant with the timeliness spending requirement.

SCOPE AND METHODOLOGY

We performed the audit fieldwork from October 2012 through May 2013 at the HUD OIG Office of Audit in Buffalo, NY, HUD headquarters in Washington, DC, and various local HUD field offices. Our review generally covered CDBG grantees' program year 2011 timeliness tests in IDIS, which covered tests occurring between November 2011 and October 2012. This period was extended as necessary. To accomplish the objectives, we

- Reviewed applicable HUD regulations, the Code of Federal Regulations, and other requirements and directives that govern the CDBG program.
- Reviewed information systems data from IDIS for background and informational purposes. We performed a minimum level of testing and found the computer-processed data to be adequate for our purposes.
- Interviewed HUD and grantee officials to obtain an understanding of the timeliness spending requirement.
- Reviewed HUD's correspondence with its grantees pertaining to the timeliness spending requirement.
- Reviewed grantee officials' files pertaining to the timeliness spending requirement.
- Tested the four local HUD field offices that we determined did not notify grantees of their noncompliance with the timeliness spending requirement in 2011. We reviewed a non-representative sample of 15 of the 20 untimely grantees administered by these four field offices. We selected grantees from each field office but made a decision not to review all the untimely grantees due to time and travel cost constraints. We also reviewed the informal briefing packages for all 11 of HUD's CDBG grantees that were consecutive-year noncompliant with the timeliness spending requirement as of the program year 2011 timeliness test in IDIS, which was the most current year's test data available at the time we started our audit.
- Coordinated with HUD OIG Financial Audit Division staff on its HUD financial statement review and the audit steps relating to CDBG timeliness spending. We reviewed its workpapers and documentation obtained from HUD officials pertaining to our audit.

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

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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- 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.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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

Based on our review, we believe that the following items are significant deficiencies:

- HUD officials did not have adequate controls over the effectiveness and efficiency of program operations when they did not establish adequate administrative controls to ensure that CDBG entitlement grantees were adequately monitored for compliance with the timeliness spending requirement (see finding).
- HUD officials did not have adequate controls over compliance with laws and regulations, as they did not always comply with HUD regulations and guidance pertaining to monitoring grantees for compliance with the timeliness spending requirement and sanctioning them for noncompliance (see finding).
- HUD officials did not have adequate controls over the safeguarding of resources regarding CDBG funds that could have been subject to a reduction in the grantees subsequent year's grant funding due to noncompliance with the timeliness spending requirement (see finding).

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use <u>1/</u>
1A	\$5,658,648
1C	\$2,720,364
Total	<u>\$8,379,012</u>

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, \$8,379,012 in CDBG entitlement funds that could have been reduced from the subsequent years' funding of the ten untimely grantees wasn't. Therefore, if these grantees' subsequent years' funding is reduced, following a decision made by HUD officials after an informal consultation with the grantees, and OIG recommendations to improve procedures to prevent this condition from recurring are implemented, these funds can be put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

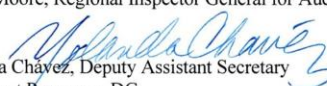


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

JUN 24 2013

OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

MEMORANDUM FOR: Edgar Moore, Regional Inspector General for Audit, 2AGA

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

SUBJECT: Office of Community Planning and Development Comments
on Draft Audit Report "HUD Officials Did Not Always Monitor
Grantee Compliance with the CDBG Timeliness Spending
Requirement"

Thank you for the opportunity to provide comments on the subject draft audit report. The Department appreciates your bringing the matter of the Community Development Block Grant (CDBG) program timely expenditure requirements to the forefront with this draft audit report. This draft report has served as the impetus for CPD to accelerate a number of actions regarding grantees compliance with the timely expenditure requirement at 24 CFR 570.902, *Review to determine if CDBG-funded activities are being carried out in a timely manner.*

Draft Audit Recommendations

The draft report makes recommendations to CPD in four areas:

- 1A. Strengthen controls over procedures relating to the HUD Entitlement Communities Division monthly timeliness report. Procedures should require the timeliness report to be sent to the local HUD field offices by a specific date each month. If our recommendations to improve procedures are implemented and grantees' subsequent years' funding is reduced, \$5,658, 648 in questioned CDBG entitlement funds from the four untimely grantees can be put to better use.
- 1B. Strengthen CDBG timeliness spending grantee notification procedures to ensure that the notification of new untimely grantees becomes a higher priority and explain to staff the importance of the notification process in the sanctioning policy.
- 1C. Document its rationale for not subjecting the six untimely grantees to its sanctioning policy, which should have required that \$2,720,364 in CDBG entitlement funds from these six untimely grantees subsequent years grant funding be reduced. If OIG recommendations to improve procedures are implemented, these funds can be put to better use.
- 1D. Establish procedures requiring documentation of its rationale for not sanctioning grantees not complying with the CDBG timeliness spending requirement.

www.hud.gov espanol.hud.gov

Comment 1

Ref to OIG Evaluation

Auditee Comments

1E. Establish procedures on how to handle grantees that are minimally noncompliant with the timeliness spending requirement.

As noted herein, CPD will enhance its current procedures to respond to the draft audit recommendations.

Comment 2

CPD will revise its existing procedures to ensure more prompt transmission of monthly timeliness reports, as recommended in 1A. However, CPD does not concur with the Regional Inspector General for Audit's (RIGA) recommendation to reduce grant funding for the four grantees that did not receive timely notification by their respective field offices of their failure to comply with 24 CFR 570.902. Although the four grantees did not receive a deficiency letter after failing to comply with the timely expenditure regulation, the RIGA may find that these four grantees were notified of their untimely performance in the annual performance letter that field offices transmit to grantees. The current CPD sanctions policy does not require CPD to automatically reduce an untimely grantee's CDBG allocation solely because of its failure to comply with 24 CFR 570.902. The decision to reduce a future grant rests with the Deputy Assistant Secretary for Grant Programs, who serves as the hearing officer during informal consultations held with untimely grantees.

Comment 3

Further, under Subpart O of the CDBG regulations, Performance Reviews, CPD cannot take the sanction of reducing a future grant without having fully complied with the due process spelled out in the regulations. Inclusive of this process for untimely performance is issuance of a warning to advise the untimely grantee of the deficiency and put the grantee on notice that further action will be taken if the deficiency is repeated or not corrected. Consequently, when a field office does not issue a timely deficiency letter to an untimely grantee, CPD has neither the statutory nor the regulatory authority to automatically reduce a CDBG allocation before or after an award has been made to the untimely grantee. Only in cases where due process has been followed can the Department make a reduction in the entitlement grant amount for the succeeding program year.

Comment 4

In addition, the RIGA recommended the reduction of the four grantees' subsequent years funding so that the amount the grantees exceeded the 1.5 standard, \$5,658, 648, "can be put to better use." However, there is no basis for this statement. As noted above, the decision to reduce a future grant rests with the Deputy Assistant Secretary, and if a consultation is not held, this does not mean the funds were not put to good use. Grantees have to comply with all CDBG program requirements and ensure that they meet a national objective. Therefore, unless the RIGA audited these grantees and determined the funds were misused, this statement must be deleted from this recommendation as well as from recommendation, 1C.

Comment 5

Recommendation 1B -- to strengthen existing CDBG timeliness spending grantee notification procedures -- will be addressed by issuing a policy memorandum to the HUD Field Office CPD Division Directors. The recommendations proposed by the RIGA for items 1C, 1D and 1E are related to the CPD's timely expenditure sanctions policy and CPD is moving to address them comprehensively through issuance of an intra-office procedure.

In recommendation 1C, the RIGA stated that CPD is to "Document its rationale for not subjecting the six untimely grantees to its sanctioning policy, which should have required that \$2,720,364 in CDBG entitlement funds from these six untimely grantees subsequent years grant

Ref to OIG Evaluation

Auditee Comments

3

funding be reduced.” In addition, the recommendation states that if the OIG recommendations to improve procedures are implemented, “these funds can be put to better use.” More specifically, the draft report suggests that the DAS should have sanctioned untimely grantees when HUD field office staff recommended the sanction.

Comment 6

It is important to reiterate that the decision to issue a financial sanction to an untimely grantee rests with the hearing officer. It is not the role of the OIG to determine whether any given grantee should be sanctioned. The claim that the six grantees in question “should” have had their future grants reduced is a statement of opinion, not a statement of fact. While a HUD field office may recommend sanctioning an untimely grantee, the hearing officer determines the outcome of the informal consultation. The informal consultation provides a platform in which CPD can gain a deeper understanding of how to better assist the untimely grantee in increasing its capacity to run a successful community development program. Moreover, grantees are able to present their case that may not have been presented prior to the hearing. In addition, technical assistance engagements or agreements that have been executed between CPD and the grantee, also factor into the Deputy Assistant Secretary’s decision as the hearing officer.

Comment 7

While CPD agrees with the RIGA that its timely expenditure procedures should be enhanced to address some of the issues raised in the draft audit report, it does not agree that these issues constitute significant deficiencies, as noted on page 13 of the draft report. The draft audit report has not indicated how CPD’s decision to not sanction untimely grantees; to not send out a monthly report to HUD field offices by a particular date; or a field office’s failure to send out a deficiency letter when a grantee failed to comply with 24 CFR 570.902 constituted noncompliance with the provisions of applicable laws or regulations. These issues raised in the draft audit report are directly related to CPD’s policy for addressing timely expenditure of CDBG program funds.

Please feel free to contact me with any questions regarding CPD’s comments.

OIG Evaluation of Auditee Comments

- Comment 1** HUD officials state that the draft report makes four recommendations to CPD. However, the report contains five recommendations, 1A through 1E.
- Comment 2** HUD officials concur with our recommendation to strengthen existing procedures relating to the monthly timeliness reports. However, HUD officials state that they do not concur with the recommendation to reduce grant funding for the four grantees that did not receive timely notification. HUD officials' state that the current CPD sanctions policy does not require CPD to automatically reduce an untimely grantee's CDBG allocation solely because of its failure to comply with 24 CFR 570.902 and that the decision to reduce a future grant rests with the Deputy Assistant Secretary for Grant Programs. The draft audit report was revised to take into consideration these comments by HUD officials. Specifically, we revised the report to indicate that, as a result of inadequate monitoring of these four untimely grantees, more than \$5.6 million in CDBG entitlement funds that could have been subject to a reduction in the grantees' subsequent years' funding following a decision made by HUD officials after an informal consultation with the grantees, was not.
- Comment 3** HUD officials state that CPD cannot take the sanction of reducing a future grant without having fully complied with the due process spelled out in the regulations and that when a field office does not issue a timely deficiency letter to an untimely grantee, CPD has neither the statutory nor the regulatory authority to automatically reduce a CDBG allocation before or after an award has been made to the untimely grantee. The draft audit report was revised to take into consideration these comments by HUD officials. Specifically, we revised the report to indicate that more than \$8.3 million in CDBG entitlement funds that could have been reduced from the subsequent years' funding of the 10 untimely grantees was not. In addition, we revised the report to indicate that, following a decision made by HUD officials after an informal consultation with the grantees, the grantees' subsequent years' funding could be reduced.
- Comment 4** HUD officials state that the decision to reduce a future grant rests with the Deputy Assistant Secretary, and if a consultation is not held, this does not mean the funds were not put to good use. The draft audit report was revised to take into consideration these comments by HUD officials. We revised the report to indicate that, following a decision made by HUD officials after an informal consultation with the grantees, the grantees' subsequent years' funding could be reduced. This cost savings would result in funds put to better use.
- Comment 5** HUD officials concur with our recommendation to strengthen existing CDBG timeliness spending grantee notification procedures and recommendations 1C, 1D, and 1E relating to the CPD timely expenditure sanctions policy.

Comment 6 HUD officials state that the draft report suggests that the DAS should have sanctioned untimely grantees when HUD field office staff recommended sanctions. The draft audit report was revised to take into consideration these comments by HUD officials. Specifically, we revised the report to indicate that, there was more than \$2.7 million in CDBG entitlement funds from six untimely grantees that were either recommended by the local HUD field office for sanctioning or should have been scheduled for an informal consultation with HUD officials for possible sanctioning.

Comment 7 HUD officials disagree that the issues identified in the draft audit report constitute significant deficiencies. Although the draft audit report was revised to take into consideration comments by HUD officials, the core issues identified in the report remain. Specifically, 10 grantees that became noncompliant with the timeliness spending requirement were either not notified of their noncompliance by the local HUD field office, or HUD officials did not adequately document their rationale for not sanctioning the grantees.