



HUD's Office of Community
Planning and Development –
Washington, DC

Neighborhood Stabilization Program



To: Marion McFadden, Deputy Assistant Secretary for Grant Programs, DG

//signed//

From: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

Subject: HUD's Office of Community Planning and Development Did Not Always Pursue Remedial Actions but Generally Implemented Sufficient Controls for Administering Its Neighborhood Stabilization Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's Office of Community Planning and Development's Neighborhood Stabilization 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, section 8M, 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 404-331-3369.



Audit Report Number: 2015-AT-0001

Date: March 31, 2015

HUD's Office of Community Planning and Development Did Not Always Pursue Remedial Actions but Generally Implemented Sufficient Controls for Administering Its Neighborhood Stabilization Program

Highlights

What We Audited and Why

We reviewed the U.S. Department of Housing and Urban Development (HUD), Office of Community Planning and Development's (CPD) Neighborhood Stabilization Program (NSP). We initiated the audit under the HUD Office of Inspector General's (OIG) annual audit plan. Our objective was to provide an overall assessment of NSP, including assessing the sufficiency of HUD's controls and determining whether HUD had improved its controls as a result of its own monitoring efforts as well as audits or reviews by OIG or other entities.

What We Found

HUD failed to take appropriate action regarding more than \$22 million in unexpended NSP1 and NSP3 initial funding allocations. This condition occurred because HUD (1) did not agree that certain grantees had missed deadlines, (2) was unable to provide documentation showing remedial actions, and (3) relied on expenditure information reported in its Disaster Recovery Grant Reporting system that was not always accurate. Since HUD had no assurance that these funds were used to help reduce the effects of the foreclosure crisis in a timely manner as Congress intended, the overall effectiveness of the program may have been lessened.

HUD had generally implemented sufficient controls and improvements, including providing guidance and technical assistance, as a result of its own assessments. However, HUD could improve its administration of NSP and similar programs by effectively using OIG reports on individual grantees to identify trends programwide. HUD management did not effectively use trends identified from OIG reports on individual grantees that highlighted common problems or regulatory gaps on which it could base national policy guidance or other directives. As a result, HUD may not have always recognized recurring issues or provided grantees the most effective guidance for improving overall program performance.

What We Recommend

We recommend that CPD (1) provide support showing that it took action regarding more than \$22 million in unexpended funds or provide adequate support showing that grantees did not miss the expenditure deadlines, (2) work with grantees to ensure that the information reported is accurate and up to date, and (3) adopt a best practice to use OIG audit reports to help identify potential areas for improvement programwide for NSP and similar programs.

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Background and Objective

Congress created the Neighborhood Stabilization Program (NSP) to help cities, counties, and States deal with community problems resulting from the Nation's mortgage foreclosure crisis. One of the key principles of NSP was to support uses and activities that would rapidly arrest the decline of targeted neighborhoods that had been negatively affected by abandoned or foreclosed-upon properties. The U.S. Department of Housing and Urban Development (HUD), through its Office of Community Planning and Development (CPD), provided money to local governments, nonprofits, and all 50 States through three rounds of NSP funding totaling approximately \$6.82 billion. The three rounds of NSP funding were for stabilizing communities through the purchase and redevelopment of foreclosed-upon and abandoned homes and residential properties.

The first round of NSP funding (NSP1) provided \$3.92 billion to 307 State and local governments on a formula basis to stabilize communities hardest hit by foreclosures and delinquencies. Section 2301(b) of the Housing and Economic Recovery Act of 2008 established NSP1.

The second round of NSP funding (NSP2) competitively awarded \$1.93 billion to 56 States, local governments, nonprofits, and consortia of nonprofit entities. The American Recovery and Reinvestment Act of 2009 authorized NSP2. It also authorized HUD to establish NSP-TA, a \$50 million allocation made available to national and local technical assistance providers to support NSP grantees.

The third round of NSP funding (NSP3) provided an additional \$1 billion to 270 State and local governments. Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010 authorized NSP3. HUD allocated NSP3 funds by formula based on the number of foreclosures and vacancies in the 20 percent of U.S. census tracts with the highest rates of homes that were financed by a subprime mortgage, were delinquent, or were in foreclosure.

HUD required grantees to report NSP progress in its Disaster Recovery Grant Reporting (DRGR) system. The information that HUD required grantees to report included but was not limited to action plans, funding, obligations, expenditures, progress with national objectives, and project data.

Our objective was to provide an assessment of NSP, including assessing the sufficiency of HUD's controls and determining whether HUD had improved its controls as a result of its own monitoring efforts as well as audits or reviews by the Office of Inspector General (OIG) or other entities.

Results of Audit

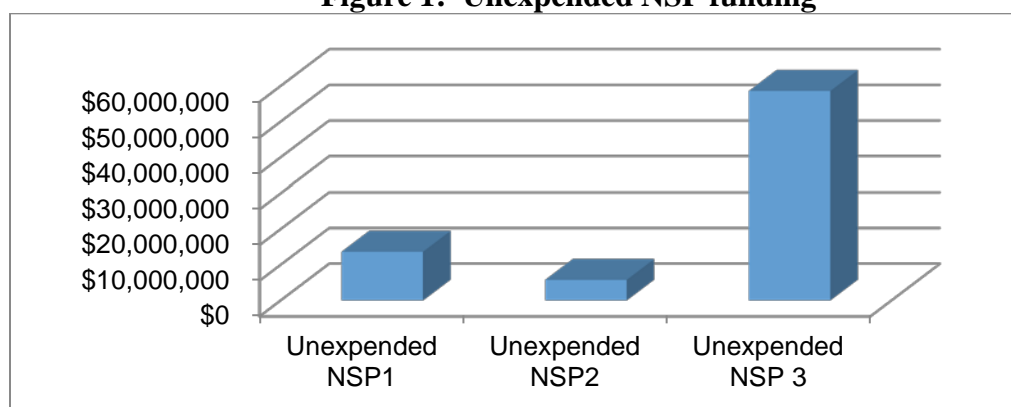
Finding 1: HUD Did Not Always Pursue Remedial Actions With Grantees That Failed To Spend Funds by the Deadlines

HUD failed to take appropriate action regarding more than \$22 million in unexpended NSP1 and NSP3 initial funding allocations. This condition occurred because HUD (1) did not agree that certain grantees had missed deadlines, (2) was unable to provide documentation showing remedial actions, and (3) relied on expenditure information reported in DRGR that was not always accurate. Since HUD had no assurance that these funds were used to help reduce the effects of the foreclosure crisis in a timely manner as Congress intended, the overall effectiveness of the program may have been lessened.

Funds Remained Unexpended

Although the spending deadlines had passed, grantees had not spent more than \$72.2 million of their initial allocations of NSP1 and NSP3 funding¹ according to grantee-reported data in DRGR as of October 2014. This amount included nearly \$14 million for 29 of the 307 NSP1 grantees and more than \$58 million for 105 of the 270 NSP3 grantees.² Figure 1 shows the amounts that grantees reported as unexpended as of October 22, 2014.

Figure 1: Unexpended NSP funding³



¹ Appendixes D and E of this report show the grantees and unexpended amounts as of October 22, 2014, for NSP1 and NSP3 grantees that did not meet the expenditure deadlines according to DRGR.

² Unexpended amounts consist of more than \$13.7 million for NSP1, \$5.8 million for NSP2, and \$58.6 for NSP3. Due to availability of data, the NSP2 unexpended amount was as of July 28, 2014.

³ The expenditure deadline for NSP2 funding is September 30, 2015.

HUD's Policy Development and Research Office's effectiveness study by Abt and Associates (finding 2) identified the following reasons why grantees were slow to spend their funding:

- Grantees sometimes had difficulty competing with private investors;
- Appraisal discount requirements sometimes presented difficulties for grantees; and
- Properties needed more rehabilitation than expected, making them cost prohibitive or driving up rehabilitation costs after acquisition.

Congress established expenditure deadlines for the three rounds of NSP funding within the appropriations acts for each round. HUD also addressed the expenditure deadlines for NSP1 and NSP3 in Federal Register issuances in which it established provisions for the recapture of any funds not spent by the deadlines.

HUD required grantees to spend an amount equal to their initial allocation of NSP1 funding within 4 years after receiving the funds. It executed NSP1 grant agreements on various dates during the spring of 2009. Therefore, based on HUD's interpretation and application of the statute, all NSP1 grantees should have satisfied this requirement by the date of their grant in the spring of 2013.

Congress required NSP2 and NSP3 grantees to spend 50 percent of their funds within 2 years and 100 percent within 3 years. HUD secured a waiver from the Office of Management and Budget to extend the deadline for 100 percent expenditure of NSP2 funds to September 30, 2015. The 100 percent expenditure date for NSP3 grantees was March 8, 2014. Appendix C of this report contains additional details regarding the expenditure deadlines.

HUD Did Not Always Act Regarding Unexpended Funds

HUD failed to take action regarding more than \$22 million in unexpended funds. The timely expenditure of funding was fundamental to NSP. Any delays in grantees' expenditures reduced the overall impact of the program since funds were not used to help reduce the effects of the foreclosure crisis as quickly as Congress had intended. However, HUD did not always pursue remedial actions with grantees that failed to spend NSP funds by the statutory deadlines.

Using information from DRGR, we compared grantees' reported expenditures from April 1, 2013, and April 1, 2014, after the expenditure deadlines for NSP1 and NSP3, respectively, to data reported in the system on October 22, 2014. HUD required grantees to spend program income before spending additional grant funding⁴ but did not require them to spend all program income by the statutory deadlines. However, grantees could apply program income expenditures toward the requirement that they spend an amount equal to their initial grant allocation by the expenditure deadlines. We included program income expenditures in our determination of unexpended funds.

⁴ Federal Register Notice 73 FR 58340, section (N), dated October 6, 2008

As of April 1, 2013, 69 NSP1 grantees reported spending an amount less than their initial allocation, and by October 22, 2014, the number of NSP1 grantees that missed the expenditure deadline had decreased to 29. This condition resulted in unexpended funds totaling more than \$13.7 million.

As of April 1, 2014, 141 NSP3 grantees reported spending an amount less than their initial allocation, and by October 22, 2014, the number of NSP3 grantees that missed the expenditure deadline had decreased to 105. This condition resulted in unexpended funds totaling nearly \$58.6 million.

HUD could take several different actions if a grantee failed to spend an amount equal to its initial allocation of NSP1 or NSP3 funding. Regulations at 24 CFR (Code of Federal Regulations) 570.495(a) outline remedial actions, which include a letter of warning, submission of additional information, suspension or termination of disbursements, recapture of funds, or requiring a reimbursement basis payment method instead of an advance basis method.

We requested documentation showing CPD's actions in response to the missed deadlines for the 29 NSP1 and 105 NSP3 grantees that did not report expenditures in DRGR at least equaling the amount of their initial allocations. Examples of HUD's actions included finding letters, informal consultations, corrective action letters, corrective action deadlines, requesting periodic updates, and in some cases, reduced grant amounts. Based on HUD's responses, we classified the grantees into the following five categories:

1. HUD took no action and did not agree that the grantee missed the deadline (41 grantees);
2. HUD took remedial actions, and DRGR showed a large reduction in the unexpended amounts (24 grantees);
3. HUD took remedial actions, but DRGR showed little to no reduction in unexpended amounts (58 grantees);
4. The grantee showed insufficient expenditures in October 2014 but reported meeting the deadline in earlier reports (6 grantees); or
5. HUD did not provide documentation showing remedial actions (5 grantees).

Figures 2 and 3 show how the 29 NSP1 grantees and 105 NSP3 grantees reporting unexpended funds in October 2014 fit into the assigned categories. Appendixes D and E provide additional detail.

Figure 2: CPD actions for 29 NSP1 grantees

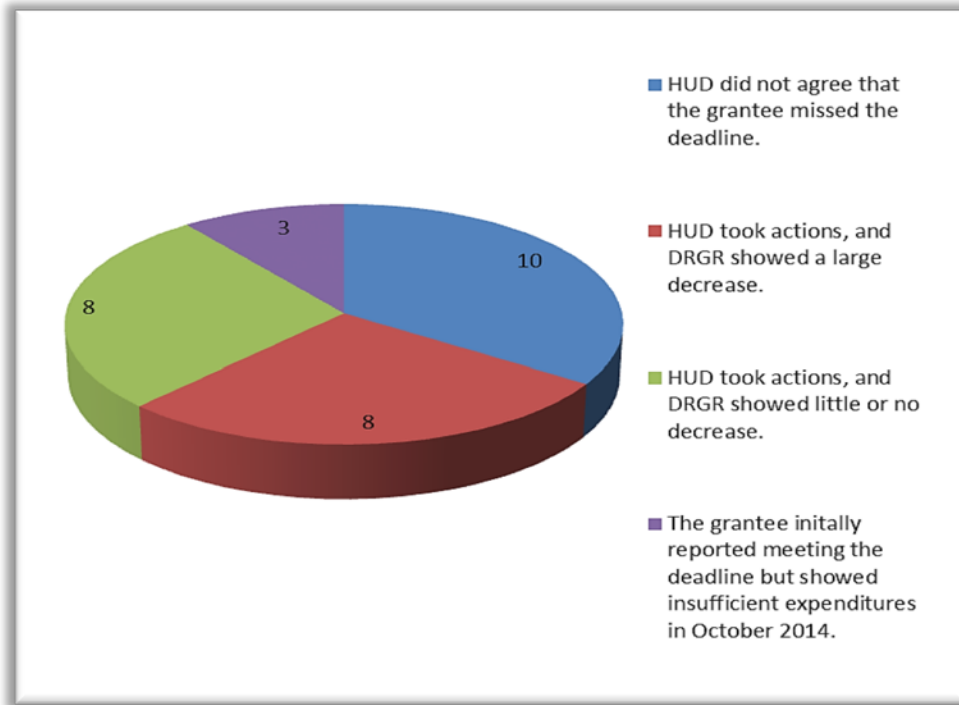
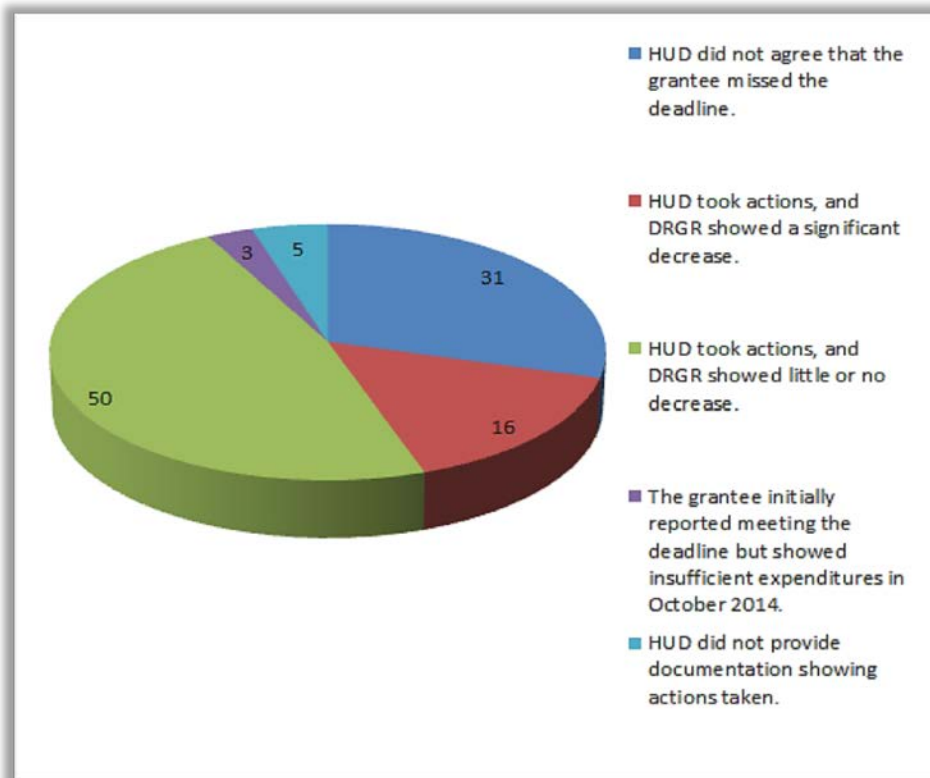


Figure 3: CPD actions for 105 NSP3 grantees



HUD Did Not Agree That Certain Grantees Missed Deadlines

HUD did not agree that at least 41 grantees missed the expenditure deadlines, despite the fact that the grantees' reported expenditures in DRGR were less than their initial allocations, both immediately after the expenditure deadlines (spring of 2013 for NSP1 and March 8, 2014, for NSP3) and on October 22, 2014. For example, as of April 1, 2013, immediately after the NSP1 expenditure deadline, Jacksonville-Duval, FL, reported that its total NSP1 expenditures were approximately \$6.7 million short of its initial allocation. Then on October 22, 2014, Jacksonville-Duval, FL, reported expenditures that were approximately \$1.9 million short of its initial allocation. HUD stated that it did not agree that the grantee had missed the deadline, despite the fact that the grantee continued to report expenditures less than its initial allocation approximately 18 months after the deadline. We asked HUD to explain why it did not agree that the grantee missed the deadline, but HUD did not provide adequate documentation to support these grantees' compliance with expenditure deadlines. The only support HUD provided was a spreadsheet with a column that indicated whether the grantee missed the expenditure deadline. DRGR showed that these 41 grantees had unexpended funds totaling nearly \$18.7 million.

HUD Did Not Provide Documentation Showing Actions Taken

HUD did not provide documentation to support remedial actions it took for five NSP3 grantees that reported total expenditures less than their initial NSP3 grant allocations as of March and April 2014. We asked HUD to provide the remedial actions taken and supporting documentation for those actions, but as of February 3, 2015, HUD had provided no documentation. These five NSP grantees reported unexpended funds totaling nearly \$3.4 million as of October 22, 2014.

Expenditure Data in DRGR Were Not Always Accurate

HUD relied on DRGR to monitor grantee expenditures; however, DRGR did not necessarily show the grantee's actual expenditures since it contained grantee-reported information. HUD officials explained that some grantees had not entered all expenditures into DRGR. We also found instances in which grantees reported sufficient expenditures for meeting the deadline, but later DRGR reports showed expenditures that were insufficient to meet the deadline. For example, as of October 22, 2014, Antioch, CA, reported that it had not spent \$87,273 of its NSP1 allocation. However, on April 1, 2013, immediately after the NSP1 expenditure deadline, the same grantee reported that it had spent more than \$4.2 million, an amount greater than its initial allocation.

In another case, Rialto, CA, reported as of October 22, 2014, that it had not spent \$116,849 of its NSP3 allocation. However, on April 1, 2014, immediately after the NSP3 expenditure deadline, Rialto reported that it had spent more than \$1.9 million, an amount equal to its initial allocation. HUD uses DRGR reports, in part, to help track NSP expenditures. Therefore, HUD needs to work with grantees to ensure that the information reported in DRGR is accurate and can be relied upon to determine whether a grantee has met its expenditure deadlines.

Conclusion

HUD did not always appropriately pursue remedial actions when grantees missed expenditure deadlines with more than \$22 million in unexpended funds. This condition occurred because HUD did not agree that certain grantees had missed deadlines, was unable to provide

documentation showing remedial actions, and relied on expenditure information reported in DRGR that was not always accurate. Since HUD had no assurance that these funds were used to help reduce the effects of the foreclosure crisis in a timely manner as Congress intended, the overall effectiveness of the program may have been lessened. Continuing delays in the expenditure of these funds reduce the potential for overall positive results from the program and prevent using the funds to meet other needs.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Grant Programs

- 1A. Provide support showing that 41 grantees (10 NSP1 grantees totaling \$3,993,824 and 31 NSP3 grantees totaling \$14,681,163) did not miss the expenditure deadline or support that proper remedial actions were taken to put \$18,674,987 to better use.
- 1B. Provide support showing that it took proper remedial action regarding five NSP3 grantees that missed the expenditure deadline, thereby putting \$3,379,269 to better use.
- 1C. Work with 134 grantees (29 NSP1 and 105 NSP3) that reported missing expenditure deadlines in DRGR to ensure that expenditure information submitted is accurate and up to date.

Finding 2: HUD Had Generally Implemented Sufficient Controls but Did Not Use OIG Reports on Individual Grantees To Identify Common Problems Programwide

HUD had generally implemented sufficient controls and improvements, including providing guidance and technical assistance, as a result of its own assessments. However, HUD could improve its administration of NSP and similar programs by effectively using OIG reports on individual grantees to identify trends programwide. Specifically, HUD did not fully use 66 published OIG audit reports on NSP containing recommendations for improvement and almost \$94 million in questioned costs and funds to be put to better use to help identify and address potential problems programwide. HUD management did not effectively use trends identified from OIG reports on individual grantees that highlighted common problems or regulatory gaps on which it could base national policy guidance or other directives. As a result, HUD may not have always recognized recurring issues or provided grantees the most effective guidance for improving overall program performance.

HUD Had Generally Implemented Sufficient Controls and Improvements

HUD had generally implemented sufficient controls and improvements, including providing guidance and technical assistance, as a result of its own assessments. CPD was responsive to the front-end risk assessment for each NSP round and a U.S. Government Accountability Office (GAO) report. HUD had also implemented studies to evaluate NSP.

Front-End Risk Assessments and a GAO Report

HUD conducted a front-end risk assessment for each of the three NSP rounds. It used the assessments to evaluate its internal controls and make needed improvements. For high-risk areas identified in the assessments, HUD identified actions that would improve controls.

GAO issued a report on NSP1 during December 2010.⁵ Although GAO reported finding no significant issues regarding HUD's program administration, it recommended that HUD provide additional guidance to grantees and HUD field staff to help ensure the consistent collection of information on output measures in HUD's data system. GAO also credited HUD with taking actions to reduce program risks through training, technical assistance, and the establishment of additional internal controls. It further reported that some grantees wished that they had received more guidance on the front end of NSP.

Some of the additional actions that HUD took because of the front-end risk assessments or GAO's report included hiring 32 additional staff members to help administer the program, procuring technical assistance contractors, providing grantee training through webinars, holding round table conferences, and providing grantees NSP toolkits. To improve its data collection, HUD made continual updates to DRGR and provided for its integration with the Line of Credit

⁵ Report GAO-11-48: HUD and Grantees Are Taking Actions to Ensure Program Compliance but Data on Program Outputs Could be Improved

Control System.⁶ HUD acknowledged that it could have done a better job of tracking technical assistance in the beginning of the program to better evaluate contract effectiveness.

Studies To Evaluate NSP

HUD had studies performed to evaluate NSP effectiveness and as of May 7, 2014, was commissioning a study to evaluate lessons learned from NSP to improve potential future programs of a similar nature.

HUD's Office of Policy Development and Research initiated a study conducted by Abt and Associates on the impact of NSP funding. While the study concentrated on NSP2, it included information for NSP1 and NSP3. The assessment focused on the degree to which the program met congressional goals and made a difference as measured by slowing the decline in home values and reducing the number of vacant and abandoned properties in target areas. It involved interviewing grantees and representatives of related organizations for a sample of 20 counties and extensive analysis of administrative data, individual property data, and county and census tract-level demographic data.

CPD obtained the final version of the study on June 2, 2014. The report stated that although grantees in 19 study counties⁷ made investments in more than 6,300 properties with NSP2 funding, there was no detectable effect on housing prices and other housing outcomes in the surrounding neighborhoods. The report offered the following possible reasons for this result:

- February 2013 may have been too early to detect the effects of NSP2,
- The scale of investment was small relative to the size of the problem in targeted neighborhoods,
- NSP2 investments may not have been sufficiently concentrated within census tracts,
- NSP2 grantees had to be "opportunistic" in their selection of properties,
- Different activities may have led to conflicting price effects in the short term, and
- The property selection process created challenges for measuring impacts.

At the conclusion of our fieldwork, HUD was negotiating the final version of a contract with Enterprise Community Partners to conduct a lessons-learned study of NSP. HUD was commissioning this study because it believed that the lessons learned by grantees from addressing various challenges and obstacles should be documented and shared as tools for success to build the capacity of other grantees, technical assistance providers, HUD staff, and partners.

According to the scope of work, the work plan would include five tasks: (1) coordination and project management, (2) identification of grantees, (3) a survey of grantees, (4) enterprise

⁶ The Line of Credit Control System is HUD's primary grant disbursement system, handling disbursements for the majority of HUD programs.

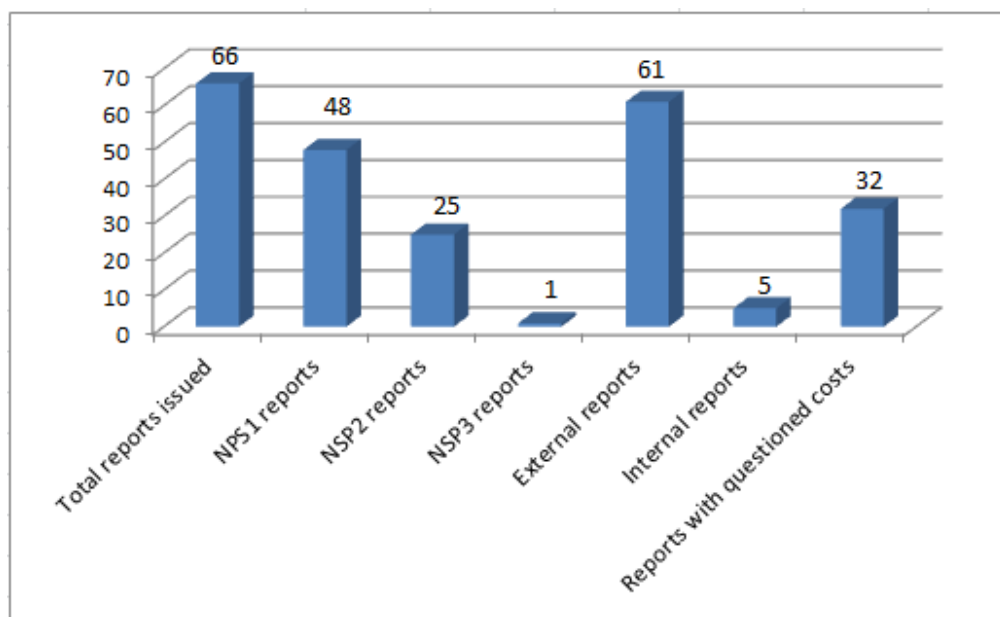
⁷ Abt and Associates dropped one county late in the study due to insufficient property-level information.

network outreach, and (5) issuance of a technical assistance provider strategy meeting facilitation and summary report. Enterprise would work with HUD to identify, select, and survey a variety of NSP grantees across at least eight topic areas to collect information about the challenges or obstacles faced and the strategies used to overcome those challenges. It would also reach out to its network to identify stalled projects in key market areas. HUD expected the study to be completed by December 2014.

HUD Did Not Recognize That OIG Reports Highlighted Common Problems

HUD tracked OIG NSP audits of individual grantees on a spreadsheet that it discussed at periodic meetings; however, it did not recognize that it could effectively use trends identified from OIG audit results for external grantees to help implement policies or other directives programwide. HUD OIG issued 66 (61 external and 5 internal) reports pertaining to NSP.⁸ These reports identified more than \$47.1 million in questioned costs (\$5.7 million ineligible and \$41.4 million unsupported) and more than \$46.7 million in funds to be put to better use. To identify recurring deficiencies, we reviewed the 32 reports that identified questioned costs and funds to be put to better use.⁹ The most common problem areas were a lack of documentation for program expenses; fees to and the use of nonprofits, developers, and subrecipients; unreasonable or excessive expenses; and supporting administrative or salary expenses.¹⁰ Figure 4 summarizes the HUD OIG audit reports issued regarding NSP.

Figure 4: HUD OIG audit report summary



⁸ Appendix F shows a complete listing of the OIG reports pertaining to NSP.

⁹ The remaining 29 reports did not identify questioned costs or funds to be put to better use.

¹⁰ Appendix G shows the report information and the specific deficiencies contained in the reports.

Lack of Documentation for Program Expenses

The most commonly recurring deficiency was a lack of documentation for program expenses. Ten OIG audit reports contained findings related to grantees' not maintaining sufficient documentation to support eligible uses of program funds, resulting in \$8,151 in ineligible costs, more than \$4.2 million in unsupported costs, and more than \$2 million in funds to be put to better use.

For example, Palm Beach County, FL, charged \$10,000 in workers compensation and \$75,000 in indirect costs without having documentation to support the charges and could not explain why it charged the program.¹¹ In another report, Reading, PA, spent NSP funds based solely on verbal agreements with four contractors and did not execute written contracts or purchase orders with these contractors.¹² In another example, the Alabama Department of Economic and Community Affairs could not locate documentation, such as canceled checks, vendor invoices, home sales contracts, and settlement statements, to support expenses.¹³

Fees to and Use of Nonprofits, Developers, and Subrecipients

The second most common deficiency noted in OIG audit reports related to grantees' improper use of nonprofits, developers, and subrecipients. Nine reports identified instances in which grantees did not properly use or pay such entities, resulting in \$945,432 in ineligible costs, more than \$30.3 million in unsupported costs, and more than \$2.3 million in funds to be put to better use.

For example, Polk County, FL, allowed a nonprofit entity with which it had no contract to acquire and sell abandoned and foreclosed-upon properties in its name without title restrictions.¹⁴ In another case, the City of Santa Ana, CA, reimbursed its developer more than \$669,000 for ineligible costs incurred during the acquisition and rehabilitation of single-family properties that should have been covered by the developer's fee.¹⁵

Unreasonable or Excessive Expenses

The third most commonly occurring deficiency noted in OIG audit reports was unreasonable or excessive expenses. Eight reports showed that grantees used NSP funds for unreasonable or excessive expenses, resulting in \$599,757 in ineligible costs, \$63,498 in unsupported costs, and more than \$3.8 million in funds to be put to better use.

For example, the City of Santa Ana, CA, spent at least \$375,000 for unnecessary bank charges (private bank loan fees).¹⁶ In another example, Little Haiti in Miami, FL, collected payments

¹¹ 2011-AT-1008, Palm Beach County, FL

¹² 2011-PH-1012, Reading, PA

¹³ 2012-AT-1010, Alabama Department of Economic and Community Affairs

¹⁴ 2010-AT-1014, Polk County, FL

¹⁵ 2013-LA-1006, City of Santa Ana, CA

¹⁶ 2013-LA-1006, City of Santa Ana, CA

twice for tenant certification services.¹⁷ In two other cases, grantees paid excessive fees because they did not ensure that properties they purchased met the 1 percent discount from appraised market value requirement.¹⁸

Supporting Administrative or Salary Expenses

The fourth most common deficiency, found in seven reports, involved grantee failure to adequately support or use administrative expenses, resulting in \$47,058 in ineligible costs and \$545,049 in unsupported costs.

As examples, the State of Illinois did not document disbursements for wages for technical assistance personnel and its program accountant,¹⁹ and the Texas Department of Housing and Community Affairs spent \$8,767 on unsupported payroll and administrative costs for agreements that it had canceled.²⁰

As a result of its front-end risk assessments and GAO's report, HUD took actions that included providing grantee training through webinars, holding round table conferences, and providing grantees NSP toolkits. However, there were instances in which HUD issued a policy alert, similar to the issues noted in HUD OIG audit reports, but after the issuance, several audit reports were issued with the same deficiencies. For example, before HUD issued a policy alert on procurement of developers and subrecipients in June 2012, HUD OIG issued four audit reports²¹ regarding fees to and the use of nonprofits, developers, and subrecipients. After the issuance of the policy alert, HUD OIG issued an additional five audit reports²² with similar findings.

HUD could have analyzed the OIG findings and used the common trends from OIG reports on individual grantees to recognize that grantees had problems with program compliance in certain areas. It could have then implemented policies or other directives programwide to better ensure program success.

Conclusion

HUD had generally implemented sufficient controls. It had made continual improvements and provided guidance and technical assistance as a result of its own assessments. It had also obtained an effectiveness study for NSP2 and was procuring a lessons-learned study because it believed that the lessons learned by grantees from addressing various challenges and obstacles should be documented and shared as tools for success to build the capacity of other grantees, technical assistance providers, HUD staff, and partners. However, HUD could further improve

¹⁷ 2012-AT-1015, Little Haiti in Miami, FL

¹⁸ 2012-LA-1012, City of Long Beach, CA, and 2013-CH-1006, State of Michigan

¹⁹ 2010-CH-1011, State of Illinois

²⁰ 2012-FW-1013, Texas Department of Housing and Community Affairs

²¹ 2010-AT-1014, Polk County, FL; 2011-LA-1015, Chicanos Por La Causa; 2012-AT-1010, Alabama Department of Economic and Community Affairs; and 2012-LA-1001, Housing Our Communities, Mesa, AZ

²² 2012-AT-1015, Little Haiti in Miami, FL; 2012-FW-1013, Texas Department of Housing and Community Affairs; 2012-LA-1007, Neighborhood Housing Services of Los Angeles; 2012-NY-1009, City of Newark, NJ; and 2013-LA-1006, City of Santa Ana, CA.

its program administration by effectively using OIG reports on individual grantees to identify recurring problems to help identify and address potential problems or a need for policy guidance or other directives programwide. This could be an effective tool for NSP as well as similar programs.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Grant Programs

- 2A. Adopt a best practice to use OIG audit report results to help identify and address potential problems programwide.

Scope and Methodology

We performed our fieldwork between July 2013 and November 2014 at

- HUD headquarters at 451 7th Street SW, Washington, DC, and
- HUD OIG offices at 1500 Pinecroft Road, Greensboro, NC, and 710 Locust Street, Knoxville, TN.

To accomplish our objective, we

- Contacted CPD staff to obtain an understanding of the controls significant to the audit objective.
- Reviewed applicable criteria, including risk assessments and monitoring guides, Unified NSP1 and NSP3 Notice 10-19-2010, 73 Federal Register 58330, HUD NSP Monitoring Guide 6509, CPD Notice 09-04, and CPD Notice 12-02.
- Reviewed the following applicable acts and notices of funding availability: Division B, Title III, of the Housing and Economic Recovery Act of 2008; Division A, Title XII, of the American Recovery and Reinvestment Act of 2009; Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010; and NSP2 notices of funding availability and applicable corrections.
- Identified and reviewed 66 HUD OIG audit reports (2009-2014) with findings and conclusions related to NSP. We summarized the information from these reports to identify common findings for inclusion in our report.

Our review generally covered the period March 2009 through July 2013 but was expanded as determined necessary.

We relied on DRGR to determine the number of grantees reporting unexpended NSP funds and the amount of funds that remained unexpended after the expenditure deadlines. We tested grant numbers for missing data and duplicates and tested grant amounts, funds obligated, funds disbursed, and program income disbursed for missing data. We found these data to be generally reliable. We did not conduct testing to verify the amounts reported for grant funds and program income disbursed. These amounts were grantee-reported data.

Using information from DRGR, we compared grantees' reported expenditures from April 1, 2013, and April 1, 2014, after the expenditure deadlines for NSP1 and NSP3, respectively, to data reported in the system on October 22, 2014. The original allocation for NSP1 was \$3.92 billion to 307 grantees, and the original allocation for NSP3 was \$1 billion to 270 grantees. As of April 1, 2013,

NSP1 grantees reported more than \$4.16 billion in total expenditures, which included program income, and as of April 1, 2014, NSP3 grantees reported more than \$905.2 million in total expenditures. We tested the entire universe of grantees for NSP1 and NSP3 for reported expenditures to determine whether grantees reported unexpended funds. We did not include NSP2 in this comparison because grantees received an expenditure deadline extension from the Office of Management and Budget until September 30, 2015.

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.

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 objective:

- Controls over compliance with laws and regulations.
- Controls over the reliability of financial reporting.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

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

- HUD did not always pursue remedial actions when grantees failed to spend their NSP funds by the deadlines (see finding 1).
- HUD did not use fully use 66 published OIG audit reports on NSP containing recommendations for improvement and almost \$94 million in questioned costs and funds to be put to better use to help identify and address potential problems programwide (see finding 2).

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1A	\$18,674,987
1B	\$3,379,269
Totals	\$22,054,256


- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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. Implementation of recommendations 1A and 1B to provide support regarding unexpended NSP1 and NSP3 funds will ensure that funds will be used to help NSP more effectively reduce the effects of the foreclosure crisis as intended.

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

MAR 04 2015

MEMORANDUM FOR: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

FROM: 
Marion Mollegen MacFadden, Deputy Assistant Secretary For Grant Programs, DG

SUBJECT: Audit Report: HUD's Office of Community Planning and Development Did Not Always Pursue Remedial Actions but Generally Implemented Sufficient Controls for Administering Its Neighborhood Stabilization Program.

The Office of Community Planning and Development (CPD) reviewed the February 18, 2015 draft report and would like to provide comments. CPD appreciates the level of effort that the OIG put forth into developing this audit. CPD believes that the Neighborhood Stabilization Program (NSP) has already implemented key steps to improve the effectiveness and efficiency of the program. NSP's specific comments, listed by finding recommendation, are described below:

FINDING 1: HUD Did Not Always Pursue Remedial Actions With Grantees that Failed to Spend Funds by the Deadlines.

Expenditures are reported by NSP grantees in the HUD Disaster Recovery and Reporting System (DRGR) Quarterly Progress Reports (QPR). A grantee typically expends its funds out of its general fund, and then at later time in the project, draws down funds from its NSP grant award and any program income. There is normally a lag time from the time of the grantee's expenditures to the time a grantee is reimbursed.

A NSP grantee records the amounts it has expended as a separate line item in its DRGR Quarterly Progress Reports.

The OIG audit report, Appendices D and E, only includes the grant funds drawn from the grantee's NSP grant award plus the funds drawn from its program income, if any. This does not present a full account of the NSP grantee's expenditure amount, as it leaves out additional amounts the grantee has already expended, but has not yet been reimbursed.

Grantees under the NSP3 program are required under section 1497 of the Wall Street Reform and Consumer Protection Act (Dodd-Frank) of 2010 to expend 100 percent of the allocated amount of NDP3 funds within three years from the date funds became available to the grantee. The 100 percent NSP3 expenditure deadline for NSP3 grantees was three years from the date the HUD Field Office signed the grant award agreements. Most of these deadlines fell during March of 2014. Upon the deadline, the HUD Field Offices reviewed

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Comment 1

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the NSP3 grantee's amounts and issued Letters of Compliance or Noncompliance with the 100 percent NSP3 Expenditure Deadline.

The grantees were given up to 30 calendars days after their deadlines to submit documentation to their HUD Field Office on any additional expenditure of funds not already recorded in the DRGR system and demonstrate to HUD that the expenditure occurred on or before the three year deadline.

After the 30 day update period and completion of the documentation review by the HUD CPD Field Office, the NSP Team worked with CPD Field Staff and the NSP3 grantees to schedule informal consultations, as required for appropriate corrective actions per 24 CFR 570.910. These telephone consultations included the Deputy Assistant Secretary for CPD Grant Programs, OGBA Director or Deputy Director, NSP grantee, HUD Field Office, and NSP team members.

The purpose of the consultations was to provide the grantees with an opportunity to demonstrate cause for failure to meet the deadline and to take appropriate corrective and remedial actions for ensuring completion of the NSP3 projects or make appropriate adjustments in grant award. Grantees were required to document reasons beyond their control that caused non-compliance or, if applicable, the factors that demonstrated compliance.

Following these consultations, HUD-HQ in discussions with the Field Office, determined and documented appropriate remedial and corrective actions for these NSP3 grantees to follow. Corrective Action letters signed by the Deputy Assistant Secretary or her designee were sent from HUD-HQ to these grantees.

In a majority of the consultations, the reasons given by the NSP3 grantees for missing their expenditure deadline were:

- Extreme 2013-2014 winter weather conditions prevented rehabilitation projects from proceeding.
- Staff turnover, with time required for new staff to come up to speed.
- Lack of supply of available housing units within the targeted neighborhood, with other buyers purchasing them from underneath them, or time required for amendments to targeted neighborhood areas.

Typical remedial and corrective action requirements of the NSP3 grantees were:

- Maintain staffing levels to ensure the remaining timely project completions and accurate submission of reports.
- Submit biweekly or monthly updates on expenditure progress to their HUD NSP Field Office Representative.

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- Achieve 100 percent expenditure of NSP3 funds within specific corrective action timeframes, based upon the construction/rehabilitation of projects already underway.
- Allow for receipt or continuation of NSP technical assistance from a NSP-TA Provider.

If the corrective actions were not undertaken or the grantee failed to expend and report on the remaining funds within the specific project timelines, HUD may take additional corrective action and remedial actions as described in 24 CFR 570.910, including the potential reduction of the grant award in accordance with 24 CFR 570.911.

HUD completed a similar process for NSP1 grantees at the end of the NSP1 grantee's 100% expenditure deadline.

FINDING 1A. Provide support showing that 41 grantees (10 NSP1 grantees totaling \$3,993,824 and 31 NSP3 grantees totaling \$14,681,163) did not miss the expenditure deadline or support that proper remedial actions were taken to put \$18,674,987 to better use.

10 NSP1 GRANTEES – OIG REPORT APPENDIX D

HUD does not agree that the 10 NSP1 grantees listed in the OIG's Appendix D missed their NSP1 100 percent expenditure deadline. The OIG office was using incorrect Total Drawn amounts (drawn from NSP1 grant award plus drawn from program income) rather than the NSP1 grantee's actual expenditure amounts. The chart below shows the actual amounts expended by these NSP1 grantees, per DRGR, on the day after their NSP1 100 percent expenditure deadlines. These expenditure amounts were reported in DRGR QPR by the grantee and verified by the grantee's HUD Field Office NSP representative.

Comment 2

NSP1 Expenditure Amounts per DRGR Quarterly Progress Reports as of their NSP1 100% Expenditure Date.							
HUD does not agree that these NSP1 Grantees missed their expenditure deadlines.							
	Grantee	Grant Number	Grant Amount	Expenditure Date	Total Drawn	DRGR QPR Expenditure	% Expended
1	Jacksonville-Duval, FL	B-08-UN-12-0007	\$26,175,317	3/3/2013	\$19,486,388.98	\$26,177,043.96	100.0%
2	Summit County, OH	B-08-UN-39-0008	\$3,767,144	3/19/2013	\$2,885,579.50	\$3,767,144.00	100.0%
3	Worcester, MA	B-08-MN-25-0004	\$2,390,858	3/9/2013	\$1,991,308.52	\$2,390,858.00	100.0%
5	Orange County, CA	B-08-UN-06-0503	\$3,285,926	3/5/2013	\$3,285,926.00	\$3,285,926.00	100.0%
6	Louisville Jefferson Co.KY	B-08-MN-21-0001	\$6,973,721	3/20/2013	\$5,052,302.37	\$6,973,721.00	100.0%
7	Cuyahoga County, OH	B-08-UN-39-0002	\$11,212,447	3/2/2013	\$10,334,191.65	\$11,257,618.65	100.4%
8	Palm Beach County, FL	B-08-UN-12-0013	\$27,700,340	3/4/2013	\$26,585,010.78	\$28,035,347.38	101.2%
4	Dayton, OH	B-08-MN-39-0006	\$5,582,902	3/2/2013	\$5,368,238.46	\$5,582,902.00	100.0%
9	Sterling Heights, MI	B-08-MN-26-0012	\$2,454,961	3/20/2013	\$2,410,255.99	\$2,695,976.50	109.8%
10	Minneapolis, MN	B-08-MN-27-0001	\$5,601,967	3/20/2013	\$5,581,265.57	\$5,607,058.47	100.1%
Totals			\$95,145,583			\$95,773,595.96	

Extracted from NSP1 Expenditures as of NSP1 Expenditures Date spreadsheet, presented to OIG at meeting of February 3, 2015.

Each of these 10 NSP1 grantees met their NSP1 100% expenditure dates deadlines.

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31 NSP3 GRANTEES – OIG REPORT APPENDIX D

HUD does not agree that the 31 NSP3 grantees listed in the OIG's Appendix E missed their NSP3 100 percent expenditure deadline. The OIG office was using incorrect Total Drawn amounts (drawn from NSP3 grant award plus drawn from program income) rather than the NSP3 grantee's actual expenditure amounts. The chart below shows the actual amounts expended by these NSP3 grantees, per DRGR, on the day after their NSP3 100 percent expenditure deadlines. These expenditure amounts were reported in DRGR QPR by the grantee and verified by the grantee's HUD Field Office NSP representative.

NSP3 Expenditure Amounts per DRGR Quarterly Progress Reports as of their NSP3 100% Expenditure Date						
HUD does not agree that these NSP3 Grantees missed their expenditure deadlines.						
	Grantee	Grant Number	Grant Amount	Expenditure Date	Total Drawn	DRGR QPR Expenditure % Expended
1	Chicago, IL	B-11-MN-17-0002	\$15,996,360	3/15/2014	\$10,180,104.97	\$16,006,183.86 100.1%
2	Union County, NJ	B-11-UN-34-0102	\$1,574,051	3/10/2014	\$815,147.81	\$1,574,051.00 100.0%
3	Washington, DC	B-11-MN-11-0001	\$5,000,000	3/7/2014	\$2,858,473.05	\$5,000,000.00 100.0%
4	Brevard County, FL	B-11-UN-12-0001	\$3,032,850	3/10/2014	\$1,893,345.94	\$3,056,700.33 101.1%
5	Palm Beach County, FL	B-11-UN-12-0013	\$11,264,172	3/10/2014	\$7,179,526.01	\$11,287,278.40 100.2%
6	Merced County, CA	B-11-UN-06-0009	\$2,705,877	3/16/2014	\$1,780,265.25	\$3,773,381.34 139.5%
7	Imperial County, CA	B-11-UN-06-0507	\$1,708,780	3/18/2013	\$1,205,395.81	\$1,711,345.01 100.2%
8	Sanford, FL	B-11-MN-12-0035	\$1,037,697	3/10/2014	\$763,095.67	\$1,110,336.51 107.0%
9	State of Illinois	B-11-DN-17-0001	\$5,000,000	3/15/2014	\$3,933,746.87	\$5,000,000.00 100.0%
10	Dayton, OH	B-11-MN-39-0006	\$3,115,780	3/15/2014	\$2,494,021.53	\$3,115,780.00 100.0%
11	Lake County, IL	B-11-UN-17-0004	\$1,370,421	3/15/2014	\$1,216,526.50	\$1,615,484.97 117.9%
12	State of Massachusetts	B-11-DN-25-0001	\$6,190,994	3/7/2014	\$4,983,973.24	\$6,195,957.24 100.1%
13	Birmingham, AL	B-11-MN-01-0001	\$2,576,151	3/10/2014	\$1,918,341.53	\$2,596,842.41 100.8%
14	Maricopa County, AZ	B-11-UN-04-0501	\$4,257,346	3/9/2014	\$3,856,546.56	\$4,257,346.88 100.0%
15	Muskegon County, MI	B-11-UN-26-0008	\$1,071,900	3/10/2014	\$982,323.47	\$1,121,261.66 104.6%
16	State of Iowa	B-11-DN-19-0001	\$5,000,000	3/10/2014	\$4,509,404.51	\$5,012,482.00 100.2%
17	Miramar, FL	B-11-MN-12-0018	\$2,321,827	3/8/2014	\$2,154,521.96	\$2,321,827.00 100.0%
18	Titusville, FL	B-11-MN-12-0037	\$1,005,731	3/10/2014	\$934,507.28	\$1,138,775.17 113.2%
19	Kansas City, KS	B-11-MN-20-0001	\$1,137,796	3/10/2014	\$1,059,817.46	\$1,137,796.00 100.0%
20	Puerto Rico	B-11-DN-72-0001	\$5,000,000	3/19/2014	\$4,182,118.58	\$4,999,991.70 100.0%
21	Atlanta, GA	B-11-MN-18-0001	\$4,906,758	3/8/2014	\$4,597,801.04	\$4,951,360.04 100.9%
22	Elkhart, IN	B-11-MN-18-0002	\$1,022,717	3/8/2014	\$899,232.12	\$1,025,261.54 100.2%
23	Clark County, NV	B-11-UN-32-0001	\$20,253,261	3/9/2014	\$19,075,145.14	\$20,336,282.40 100.4%
24	Denver, CO	B-11-MN-08-0003	\$2,700,279	3/15/2014	\$2,562,116.89	\$2,831,300.58 104.9%
25	Hemet, CA	B-11-MN-06-0508	\$1,360,197	3/7/2014	\$1,296,573.32	\$1,561,586.71 114.8%
26	Fresno, CA	B-11-MN-06-0003	\$3,547,219	3/9/2014	\$3,398,506.98	\$3,547,219.00 100.0%
27	Cuyahoga County, OH	B-11-UN-39-0002	\$2,551,533	3/3/2014	\$2,454,291.24	\$2,612,216.07 102.4%
28	Martin County, FL	B-11-UN-12-0025	\$1,563,770	3/10/2014	\$1,509,234.88	\$1,563,770.00 100.0%
29	State of Colorado	B-11-DN-08-0001	\$6,518,947	3/10/2014	\$6,197,772.66	\$6,518,947.00 100.0%
30	Long Beach, CA	B-11-MN-06-0511	\$1,567,935	3/1/2014	\$1,551,083.69	\$1,568,075.49 100.0%
31	Manatee County, FL	B-11-UN-12-0010	\$3,321,893	3/10/2014	\$3,310,277.08	\$3,361,609.58 101.2%
	Totals		\$129,682,242			\$131,920,449.89

Extracted from 'NSP3 Expenditures as of NSP3 Expenditure dates, spreadsheet' given to OIG at meeting of February 3, 2015.
Each of these NSP3 grantees met their NSP3 100% expenditure deadlines.

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Comment 4

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In addition, the remaining tables in the OIG's audit report (Appendices D & E) have the incorrect label and listings of 'Unexpended funds' when it is actually showing the NSP grant award less the Total Drawn amount (from program grant plus program income), rather than showing the actual 'Unexpended funds' (the NSP grant award amount less the grantee's actual amount expended.)

1B. Provide support showing that it took proper remedial action regarding 5 NSP3 grantee that missed the expenditure deadline, thereby putting \$3,379,269 to better use.

The OIG report, Appendix E lists 5 NSP 3 grantees that HUD did not provide support to the OIG regarding any remedial and corrective actions, if any, required by HUD. These 5 grantees are:

	GRANTEE	GRANT NUMBER	GRANT AMOUNT
1	Oakland County, MI	B-11-UN-26-0010	\$1,410,621
2	Nassau County, NY	B-11-UN-36-0101	\$2,116,070
3	State of Texas	B-11-DN-48-0001	\$7,284,978
4	State of Louisiana	B-11-DN-22-0001	\$5,000,000
5	Northern Mariana Islands	B-11-SN-69-0001	\$300,000

Comment 5

1. Oakland County, MI has 2 NSP3 grants awards with different NSP3 100 percent expenditure deadlines. Oakland County's own NSP3 award, Grant Number B-11-UN-26-004 with the grant amount of \$2,080,700, met its NSP3 100 percent expenditure deadline date of March 8, 2014.

The NSP3 grant referenced above, B-11-UN-26-0010 NSP3 award of \$1,410,621 is actually a grant that was initially awarded to Pontiac, MI (one of the cities within Oakland County). As Pontiac did not have the capacity to administer this grant and desired to move the awarded NSP funds up to the county level to administer, the award was then allowed to be re-designated to Oakland County, along with a second separate NSP3 Oakland County agreement.

Oakland County's NSP3 grant agreement for B-11-UN-26-0010 was dated as March 14, 2013. The agreement specified a NSP3 100 percent expenditure date of March 13, 2016 for B-11-UN-26-0010. This expenditure deadline date has not yet been reached.

2. Nassau County, NY had an informal conference call scheduled with HUD for May 6th, 2014. As part of the background information being gathered for this call, it was believed that Nassau County had met its NSP3 100 percent expenditure amount, and therefore no informal conference call was held at that time.

Nassau County, NY has received direct on-site NSP technical assistance from HUD's NSP-TA Providers.

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Comment 6

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The HUD CPD Field Office followed up on Nassau County, NY and believes Nassau's reported DRGR information was not correct and may still not be correct. Additional NSP monitoring of their program and activities is ongoing. The investigation for potential remedial and corrective actions of Nassau County's NSP program has not yet been completed.

Comment 7

3. The State of Texas's NSP3 100 percent expenditure date was March 7, 2014. Texas had \$645,963 in NSP3 funds that were unexpended. On May 28, 2014, HUD and the state held an informal consultation and discussed factors that contributed to the state missing the NSP3 expenditure deadline. At this conference call, HUD gave the state 120 days to expend its remaining funds.

In 2013, HUD recaptured \$5,609,204.51 from the State of Texas's prior NSP1 grant award of \$101,996,848.

The state of Texas has received direct on-site NSP technical assistance from HUD's NSP-TA Providers. However, as of February 25, 2015, per DRGR, the state of Texas still has an unexpended NSP3 amount of \$661,557.82. HUD will be reviewing the state of Texas's NSP3 program for additional remedial and correction actions.

Comment 8

4. The state of Louisiana's NSP3 100 percent expenditure date was March 10, 2014. Louisiana had \$212,562 in NSP3 funds that were unexpended. On June 11, 2014, HUD held an informal consultation with Louisiana and discussed factors that contributed to the state missing its NSP3 expenditure deadline. At the consultation call, HUD gave the state 120 days to expend its remaining funds. A finding letter was issued by the HUD Field Office to the state on August 5, 2014, but an official corrective action letter from HUD-HQ was not transmitted.

The state of Louisiana has received direct on-site NSP technical assistance from HUD's NSP-TA Providers. The state of Louisiana has drawn down its entire NSP3 award of \$5,000,000 and has met the NSP3 expenditure requirement.

Comment 9

5. Northern Mariana Islands, received additional NSP3 funds reallocated from the American Samoa Government, and the HUD CPD OBGA Deputy Assistant Secretary moved Northern Mariana Islands' NSP3 100 percent expenditure date to August 31, 2014.

The Northern Mariana Islands met its August 31, 2014 NSP3 100% expenditure date.

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Comment 10

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Grantee	Grant Number	Grant amount	Deadline	Funds Expended at Deadline	% Expended at Deadline
Northern Mariana Islands	B-11-SN-69-0001	\$300,002	8/31/2014	\$305,664.00	101.90%

1C. Work with 134 grantees (29 NSP1 and 105 NSP3) that reported missing expenditure deadlines in DRGR to ensure that expenditure information submitted is accurate and up to date.

The NSP team has and will continue to work with the HUD Field Offices and NSP grantees to ensure that NSP expenditures submitted in DRGR Quarterly Progress Reports and other DRGR information is accurate and up to date.

Prior DRGR trainings have been given to the NSP grantees through: NSP DRGR workshops at regional locations, DRGR webinars, DRGR Ask-A-Question on the HUD Exchange, DRGR Help Desk, and DRGR on-line trainings through the DRGR website.

Additional DRGR workshop trainings are being scheduled for NSP grantees for later this year, for NSP grantees with staff that are new or need to have additional instructions in DRGR.

FINDING 2: HUD Had Generally Implemented Sufficient Controls but Did Not Use OIG Reports on Individual Grantees to Identify Common Problems Program Wide.

2A. Adopt a best practice to use OIG audit report results to help identify and address potential problems program wide.

OIG cited audit findings in the following areas that CPD should have used to assess risks.

- A. Lack of Documentation for Program Expenses
- B. Fees to and Use of Non-profits, Developers and Subrecipients
- C. Unreasonable or Excessive Expenses
- D. Supporting Administrative or Salary Expenses

Finding 2 in the audit cited CPD for not using OIG reports on individual grantees to identify common problems nationwide. The finding noted measures that HUD did take, but alleged that HUD “did not recognize that OIG reports highlighted common problems.” The report cited issues such as lack of documentation for program expenses, unreasonable or excessive expenses, supporting administrative or salary expenses, and topics related to developers and subrecipients.

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Comment 11

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This conclusion is not accurate. HUD agrees that the OIG audit findings should be considered in policy and grantee support materials and HUD did just that. HUD closely tracked audit findings, as shown on the attached audit tracking reports. Managers up to the DAS level referred to these reports regularly and were frequently involved with the field offices in resolving findings. NSP staff paid close attention to what the auditors were finding and incorporated these considerations into their analysis of problems. As a result, HUD did provide guidance on these topics, along with guidance prompted by grantee questions, interactions at problem-solving clinics and other sources discussed below.

HUD developed three separate Policy Alerts on developer/subrecipient issues because there were many questions about requirements in this area. Overall, HUD produced 46 substantive Policy Alerts (list attached). HUD held four different webinars on developer-subrecipient issues. HUD provided 30 weeklong training sessions on how to underwrite housing projects as technical assistance. These training sessions addressed developer and subrecipient issues.

Basically CDBG training was modified for NSP and contains extensive guidance on costs. There were no separate Policy Alerts on the cost issues since these topics are so fundamental and there are already numerous training and guidance materials about them.

HUD developed eight toolkits on various common activities (Demolition, Multifamily development) that contained extensive instructions on recordkeeping and documentation. Examples of these are appended to this document. Staff did stress in many venues the importance of reasonable cost and documentation of expenditures. This occurred at the thirty Problem-Solving Clinics held from 2010 through 2013. Classroom sessions and numerous one-on-one discussion groups at the clinics also delved into costs and documentation issues, with financial and program experts available for in-depth consultation.

HUD also sponsored over 170 webinars on NSP issues, many of which directly addressed the topics in the OIG report. Over 35,300 total listeners participated (though many of these were the same individuals). Frequent question and answer webinars allowed grantees to ask about any aspect of the program and many questions involved the topics cited by the OIG.

HUD held monthly conference calls with field staff to review issues of importance. Costs and documentation were a regular part of these conversations. Similarly, NSP staff had a monthly call with technical assistance providers to focus on problems and concerns, and all of these topics arose regularly.

Finally, HUD answered thousands of questions through its on-line Hotline, hundreds of which became FAQs that were published for the benefit of program administrators. Excerpts of one compilation of FAQs are included after the Policy Alert listings.

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Toolkit Examples

This toolkit addresses developer agreements and incorporates many issues that grantees must consider. The balance of the toolkit offers detailed guidance on these subjects.

5. Write Your Funding Agreement and Close the Deal

In addition to a standard mortgage and promissory note to secure repayment of the NSP funds, grantees will find it helpful to execute a funding agreement with all of the particulars of the specific project. A sample project-specific written agreement is available in the Multifamily Rental Toolkit as well as several sample legal documents. It is essential that the funding agreements and legal documents reflect all the performance and compliance requirements for your project, so that any meaningful change requires approval and all requirements are enforceable on the developer and/or the property, including but not limited to:

- Project budget
- Project description, unit type, design, construction standards
- Rent schedule
- Affordability requirements
- Lease requirements
- Tenant selection criteria
- Compliance with state and local tenant-landlord laws
- Conditions for faith-based organizations
- Lead-Based Paint requirements
- Fair housing and equal opportunity provisions
- Fund disbursement
- Record keeping and reporting provisions
- Enforcement provisions
- Procedures for securing rent increases
- Compliance requirements, including the monitoring checklist that will be used

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From the Demolition Toolkit, 2010: Detailed recordkeeping and documentation instructions

Data Collection:

- Database and detailed spreadsheets to capture all addresses and update status/progress
 - All requests, clearances, dates, and fees
 - Monitor progress and outstanding data
 - Categorize parcel readiness based on still-needed documentation/clearances
- Maintain documents for HUD review
 - Both electronic and physical files/parcel folders

Specific financial management tool for federal grants:

- DRGR system – data entry of parcel information:
 - Initiate/enter parcels/data into DRGR system
 - www.mshda-opal.org
 - Street address-level data
 - Parcel information, HUD Risk Scores, Census and Block Groups required
 - OPAL will confirm each parcel meets criteria, upon entry
 - Environmental Review checklist
 - Version created by Responsible Entity
 - Combines Checklist and environmental assessment forms
 - 'Blight certification letter'
 - Title/recorded deed – ownership documents and title commitment
 - Total cost estimate for demo per parcel
 - Before and/or After photos
 - OPAL will create and assign a 'Project Number' to each parcel
- Data entry of demo parcels - 'Activity Information' screen:
 - Parcel Address, City, Zip
 - County
 - Total Project Cost – estimate of total costs
 - Risk Score, Census Tract, Block Group

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This checklist from the property acquisition toolkit provides substantial detail on recordkeeping requirements for grantees.

Sample NSP Property Acquisition File Checklist

Disclaimer: This is a file checklist only. Seek other HUD resources for NSP forms and program guidance. Users should customize this Sample Checklist to the unique requirements of their NSP programs.

Property Address:

Property is (check all that apply)

Foreclosed Abandoned Vacant Blighted Built prior to 1978 Structure(s) 50+ years old

Foreclosed, abandoned, blighted and vacant status must be per NSP definitions

X or N/A	Date	Initials	Item
			EVALUATION
			Tier 1 environmental review completed for target area (X if completed)
			Property listing from Multiple Listing Service (MLS) or other source (copy filed)
			Verification that property is in a target area (areas of greatest need as outlined in the Substantial Amendment to the Action Plan (X to verify)
			Evidence that property is foreclosed (copy of deed or other document filed)
			If foreclosed, seller certification RE: tenant protections, if applicable (copy filed)
			If vacant, signed & dated inspection report indicating vacant status (copy filed)
			If vacant, utility status (signed, dated report or shut-off notice) (copy filed)
			If required, General Information Notice (GIN) to occupant(s) (copy/ies filed)
			If occupied, relocation survey (copy filed. See Note 1 below.
			If occupied, estimate of relocation costs based on survey (include relocation costs in "Total development cost estimate" below) (copy filed)
			Photos of property exterior and interior (copies filed)
			FEASIBILITY AND COST ANALYSIS
			Preliminary appraisal or estimate of market value to establish offer price -- not NSP-required (copy filed)
			Lead hazard risk assessment report if built pre-1978 (copy filed)
			Certification of zoning compliance by staff member or other source (copy filed)
			Plans & specs or work write-up (copy filed)
			Rehab or new construction cost estimate -- include demolition costs (copy filed)
			Total development cost estimate including all soft costs (copy filed)
			APPROVAL AND PRE-CLOSING
			NSP grantee written approval of acquisition, if required (copy filed)
			Notice of Voluntary or Involuntary Acquisition with delivery confirmation (copy filed)
			Purchase contract with all signatures -- see note below (copy filed)
			Completed environmental review checklist by staff or specialist (copy filed)
			Relocation file(s) started separately if occupied (N/A or X)
			Letter to SHPO re: historic status, if required (copy filed)
			Site-specific environmental review determination (copy filed)
			Appraisal, if NSP required for properties foreclosed or under threat of eminent domain or otherwise required by grantee (copy filed)
			Certification of 1% discount for foreclosed property - see note 2 below (copy filed)
			POST-CLOSING
			Deed to property (copy filed)
			Mortgage deed(s) and promissory note(s) - (copies filed)
			Settlement sheet -- HUD 1 (copy filed)

Note 1: If occupants are or were present who have rights under URA, users should set up separate relocation files.

Note 2: Unless these steps have already been completed, a purchase agreement must be conditional upon receiving an approved site-specific environmental review from the NSP grantee or other responsible entity. If foreclosed upon, the agreement must be conditional upon an appraisal indicating that the offer price is at least 1% below appraised value.

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Examples of Policy Alerts (highlighted) concerning the topics cited by OIG.

1. HUD NSP Policy Alert: Guidance on NSP-Eligible Acquisition and Rehabilitation Activities
Date Published: December 2009
2. HUD NSP Policy Alert: Guidance on Property Types under Each NSP Eligible Use
Date Published: December 2009
3. HUD NSP Policy Alert: NSP, Lead Hazard Control, and Healthy Homes Interventions
Date Published: November 2009
4. HUD NSP Policy Alert: Guidance on Joint Agreement for NSP Grantees
Date Published: November 2009
5. HUD NSP Policy Alert: Guidance on NSP State Programs
Date Published: November 2009
6. HUD NSP Policy Alert: Homeownership Assistance Guidance
Date Published: March 2009
7. HUD NSP Policy Alert: Guidance on Mapping and Needs Data for State NSP3 Action Plans
Date Published: December 2010
8. HUD NSP Policy Alert: Guidance on NSP Loan Loss Reserves
Date Published: December 2010
9. HUD NSP Policy Alert: Guidance on the National First Look Program and the FHA First Look Sales Method
Date Published: September 2010
10. HUD NSP Policy Alert: Guidance on Calculating Expenditures for NSP2 and NSP3
Date Published: September 2010
11. HUD NSP Policy Alert: Guidance on the NSP1 Recapture and Reallocation Notice
Date Published: August 2010
12. HUD NSP Policy Alert: Guidance on Documenting the Sales Price on NSP-Assisted Acquisitions
Date Published: August 2010
13. HUD NSP Policy Alert: Guidance on New Monthly Reporting Requirements for NSP1 Grantees
Date Published: August 2010

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14. **HUD NSP Policy Alert: Guidance on NSP Tenant Protection Requirements under the Recovery Act - Updated August 12, 2010**
Date Published: August 2010
15. **HUD NSP Policy Alert: Guidance on Amendments to the 25 Percent Set-Aside Requirement**
Date Published: July 2010
16. **HUD NSP Policy Alert: Guidance on FHA Mortgage Insurance for NSP Grantees**
Date Published: May 2010
17. **HUD NSP Policy Alert: Guidance on the Impact of New Definitions of "Abandoned" and "Foreclosed" for NSP-Eligible Properties**
Date Published: April 2010
18. **HUD NSP Policy Alert: Guidance on Tracking and Reporting the Use of NSP Funds - Obligations for Specific Activities**
Date Published: April 2010
19. **HUD NSP Policy Alert: Guidance on Charging Administrative Costs Incurred by NSP2 Grantees**
Date Published: March 2010
20. **HUD NSP Policy Alert: Guidance on NSP Eligible Appliance Purchases**
Date Published: March 2010
21. **HUD NSP Policy Alert: Guidance on Conditional Purchase Agreements**
Date Published: February 2010
22. **HUD NSP Policy Alert: Guidance on Section 106 for NSP Land Banking**
Date Published: January 2010
23. **HUD NSP Policy Alert: Guidance on NSP Draw Thresholds**
Date Published: December 2011
24. **HUD NSP Policy Alert: Guidance on Developers, Subrecipients, and Contractors - Implications of Using Different Entity Types to Carry out NSP-funded Activities**
Date Published: November 2011
25. **Attachment: HUD NSP Policy Alert - Updated Guidance on Meeting the 25% Set-Aside Requirement**
Date Published: September 2011
26. **HUD NSP Policy Alert: Additional Performance Measurement Added to DRGR**
Date Published: September 2011

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27. HUD NSP Policy Alert: Environmental Review, Options and Conditional Contracts
Date Published: September 2011
28. HUD NSP Policy Alert: Guidance on Allocating Real Estate Development Costs in the Neighborhood Stabilization Program
Date Published: September 2011
29. HUD NSP Policy Alert: Guidance on Options and Conditional Contracts for Purchase of Real Property
Date Published: September 2011
30. HUD NSP Policy Alert: Program Income in NSP
Date Published: July 2011
31. HUD NSP Policy Alert: Guidance on Applying Davis-Bacon to NSP-Funded Activities
Date Published: June 2011
32. HUD NSP Policy Alert: Guidance for Habitat for Humanity Affiliates
Date Published: January 2011
33. HUD NSP Policy Alert: Guidance on Joint Agreements for NSP3 Grantees
Date Published: January 2011
34. HUD NSP Policy Alert: Guidance on Revolving Funds under NSP
Date Published: August 2012
35. HUD NSP Policy Alert: Guidance on NSP National Objectives, Uses, and Activities
Date Published: August 2012
36. HUD NSP Policy Alert: Guidance on Verifying Expenditures in the Next Quarterly Performance Report (QPR)
Date Published: July 2012
37. HUD NSP Policy Alert: Guidance on Operating Deficit Reserves, Overhead Expenses, and Combined Loan to Value Ratios
Date Published: July 2012
38. HUD NSP Policy Alert: Guidance on the Procurement of Developers and Subrecipients
Date Published: June 2012
39. HUD NSP Policy Alert: Guidance on NSP Activity Delivery and Administrative Costs
Date Published: May 2012

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- 40. HUD NSP Policy Alert: Guidance on NSP Appraisals
Date Published: March 2012
- 41. HUD NSP Policy Alert: Guidance on the FHA First Look Sales Method
Date Published: October 2013
- 42. NSP Policy Alerts Notebook
Date Published: September 2013
- 43. HUD NSP Policy Alert: Guidance on NSP Disposition and Demolition
Date Published: March 2013
- 44. HUD NSP Policy Alert: Guidance on Allocating Costs Between Different NSP Grants
Date Published: January 2013
- 45. HUD NSP Policy Alert: Guidance on Land Disposition for Land Banks
Date Published: November 2014
- 46. HUD NSP Policy Alert: Guidance on Amendment Procedures
Date Published: April 2014

Examples of webinars addressing costs, administrative costs, and documentation.

168	NSP2 Reporting Webinar	4/6/2010
157	Accounting, Recordkeeping & Monitoring	6/17/2010
153	Program Income, Activity Delivery, General Admin	7/1/2010
143	Verifying Obligations in DRGR	8/17/2010
109	Program Delivery vs. Admin Costs	4/21/2011
107	Monitoring of Subgrantees by Grantees	5/5/2011
83	Activity Delivery & Program Administrative Costs II	11/3/2011
78	Determining Sales Price	12/13/2011
42	NSP Spending Strategies	10/16/2012
34	Q&A Session on Expenditures and Other Financial Issues	1/15/2013

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33	NSP Expenditures, DRGR, and QPRs	1/17/2013
14	Program Income & NSP Administration Strategies Post Closeout	11/5/2013
2	The Neighborhood Stabilization Program Monitoring Guide for Local Governments	5/6/2014

Examples of relevant FAQs

PROGRAM ADMINISTRATION

Will the general administration and planning costs for NSP be the same as CDBG (20%)?

No, the general administration and planning costs for NSP will **not** be the same as under the regular CDBG program. HUD is providing an alternative requirement that limits general administration and planning costs to 10 percent for NSP grants. Additional information on this requirement is in the Federal Register Notice under Section G. State's direct action, "Requirements."

Posted 10/31/08

If an NSP grantee allocates 10% of its NSP allocation to administrative costs in the Substantial Amendment Plan, does this constitute an obligation of the funds to meet the 18 month use requirement, even though the NSP grantee will be spending the funds over a four-year period?

The NSP definitions are derived from 24 CFR Part 85. These definitions include the terms "allocation" and "obligation," which have very different meanings. Allocating 10% of an NSP grant for general administration and planning costs does not necessarily mean that 10% of the NSP grant will be obligated to general administration and planning costs.

How and at what point funds are obligated for things like personnel costs will vary, depending in part on accounting procedures as well as the nature of the cost. For example, if an NSP grantee hired a consultant to perform NSP eligible activities; there would obviously be a signed contract between the NSP grantee and the consultant. However, for existing NSP grantee staff, obligating personnel costs would be no different from the regular CDBG program; whenever & however the staff is assigned this work. See §85.3 definitions of obligations & accrued expenditures. Certainly any consultants or contract employees that are hired would have to be under contract by the 18th month but that should not be a problem for existing staff.

Posted 11/7/08

Can the amount of NSP funds appropriated for program administration automatically meet the LMMH national objective such as CDBG general administration counts as automatically meeting LMA national objective?

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	<p>The CDBG rule is based on the assumption that admin costs will be used in the same proportion as the remainder of the grant, split among LM, slum-blight, and urgent needs national objectives. However, in NSP, 100% of the funds must benefit LMMI persons, so it is a moot point. See part II E of the attached Notice for further description of ways to meet this requirement.</p>
<i>posted 11/7/08</i>	<p>What are the procedures for entering into an agreement with the state program to administer a portion of our allocation?</p>
	<p>NSP grantees have two options. They can either enter into a joint agreement with the state, where the state would manage the local government's entire allocation or the local government can enter into a subrecipient agreement with the state, where the state manages a specific activity. Please refer to the Urban County Notice 08-04 for further guidance.</p>
<i>posted 11/20/08</i>	<p>Do NSP grantees have to identify expected expenditures for program administration in the action plan amendments submitted to HUD for NSP funding or it is presumed that 10% will be allocated to program administration?</p>
	<p>All NSP grantees must explicitly identify the expected expenditures for program administration in their action plan amendments. HUD will not presume that all grantees will budget the full 10% of total NSP allocation allowable for program administration.</p>
<i>posted 2/24/09</i>	<p>Can CDBG and HOME funds be used for activity delivery staffing cost or general administrative and planning staffing costs for the implementation of the NSP program?</p>
	<p>The answer is different for activity delivery costs vs. general administrative & planning costs. There is no problem with using CDBG funds for general administrative and planning costs related to the NSP program. The CDBG regulations [24 CFR 570.200(a)(3)(i)] states that planning & general administrative costs will be considered to meet the primary national objective to the same extent that the grantee's program as a whole does.</p> <p>Activity delivery costs are trickier. The HERA law expanded the definition of 'low- and moderate-income', but for purposes of the NSP funding only. Regular CDBG funds must still comply with the HCDA definitions of income eligibility; in addition, new housing construction is eligible under NSP but not under CDBG. So, if a grantee wishes to use CDBG funds for activity delivery costs of NSP housing activities, then either all the NSP beneficiaries would have to be at/below 80% of area median income, or else the grantee staff time records would have to split out the time spent on beneficiaries who are not CDBG income eligible. That time could not be charged to the CDBG program. However, there are no limits on the amount of activity delivery costs that can be charged to NSP activities (or to CDBG activities either), so the only situation in which we can envision a grantee needing to use CDBG funds for NSP activity delivery costs might be after the 18-month deadline has passed for obligation of NSP funds.</p>

OIG Evaluation of Auditee Comments

Comment 1 HUD stated that appendixes D and E of the report include only the grant funds drawn from the grantee's NSP grant award plus the funds drawn from its program income. They do not include the additional amounts the grantee has already spent that have not been reimbursed.

The OIG allowed sufficient time for DRGR to show an accurate representation of the missed expenditure deadlines. Appendixes D and E of the audit report reflect total unexpended amounts calculated using the sum of the grant funds and program income funds reported as disbursed in the DRGR system as of October 22, 2014. This date was more than 6 months after the expenditure deadline of NSP3 and approximately 18 months after the expenditure deadline for NSP1, which OIG considers to be sufficient time for DRGR to show an accurate representation of a missed deadline.

In addition, HUD uses the DRGR system to facilitate the distribution of NSP funds to the grantees. The DRGR system processes drawdown requests and responses as part of a nightly voucher batch process. DRGR automatically submits approved voucher line items with a submission date to LOCCS. This process is further evidence that disbursement amounts reported in DRGR should accurately reflect expenditures.

Comment 2 HUD does not agree that the 10 NSP1 grantees listed in appendix D missed their NSP 100 percent expenditure deadline. It explains that OIG used the incorrect total drawn amounts rather than the grantee's actual expenditure amounts. HUD's response included a chart showing the actual amounts spent by the 10 NSP1 grantees.

The OIG used the most current information and documentation provided by HUD during and after the audit to determine missed NSP1 expenditure deadlines. Appendix D of the report reflects total unexpended amounts, calculated using the sum of the grant funds and program income funds reported as disbursed as of the effective date of the DRGR report. In addition, the 10 NSP1 grantees OIG reported as missing expenditure deadlines were also reported as missing the expenditure deadlines in a HUD-generated report, dated April 1, 2013. This report also tracked grantee compliance with expenditure deadlines by total drawn amounts. The actual amounts spent by the NSP3 grantees were not provided during the audit. Any quarterly performance reports showing that these grantees met their expenditure deadlines that will support the data provided in HUD's response can be reviewed as part of the management decision process.

Comment 3 HUD does not agree that the 31 NSP3 grantees listed in appendix E missed their NSP3 100 percent expenditure deadline. It explained that OIG used the incorrect total drawn amounts rather than the grantee's actual expenditure amounts.

The OIG used the most current information and documentation provided by HUD during and after the audit to determine missed NSP3 expenditure deadlines. Appendix E of the report reflects total unexpended amounts, calculated using the sum of the grant funds and program income funds reported as disbursed as of the effective date of the DRGR report. In addition, the 31 NSP3 grantees OIG reported as missing expenditure deadlines were also reported as missing the expenditure deadlines in a HUD-generated report, dated April 1, 2014. This report also tracked grantee compliance with expenditure deadlines by total drawn amounts. The actual amounts spent by the NSP3 grantees were not provided during the audit. Any quarterly performance reports showing that these grantees met their expenditure deadlines that will support the data provided in HUD's response can be reviewed as part of the management decision process.

Comment 4 HUD stated that the tables in appendixes D and E contain incorrect labeling of "Unexpended funds" and that the tables show the NSP total drawn amount rather than the "Unexpended funds" (the NSP grant award amount less the amount that the grantee spent.)

Appendixes D and E of the audit report are labeled correctly and reflect total unexpended amounts calculated using the sum of the grant funds and program income funds reported as disbursed in the DRGR system as of October 22, 2014. This date was more than 6 months after the expenditure deadline of NSP3 and approximately 18 months after the expenditure deadline for NSP1, which OIG considers to be sufficient time for DRGR to show an accurate representation of a missed deadline.

Comment 5 HUD stated that the NSP3 grant B-11-UN-26-0013 was a grant that was redesignated to another grantee and a second separate agreement was executed. The expenditure deadline for the redesignated grant agreement is not until March 16, 2016, and has not yet been reached.

OIG has received no official documentation regarding the decision to redesignate the Pontiac, MI, grant to Oakland County under a separate grant agreement with an expenditure deadline extended to March 13, 2016. Therefore, the audit report does not reflect such actions. Any official documentation of these actions can be reviewed as part of the management decision process.

Comment 6 HUD stated that Nassau County, NY, received direct onsite NSP technical assistance from its providers. It believes that the grantee's reported DRGR information was incorrect and may still be incorrect. The investigation for

potential remedial and corrective actions of the grantee's NSP program has not been completed.

OIG has received no official documentation regarding the technical assistance provided to the grantee or any other correspondence related to corrective actions taken in response to the grantee expenditure deadline. Any investigative actions taken by the field office in response to Nassau County's incorrect expenditures reported in DRGR will help to satisfy recommendations 1B and 1C of the report. Any official documentation of remedial actions taken can be reviewed as part of the management decision process.

Comment 7 HUD stated that it took actions against the State of Texas for failure to meet its NSP1 and NSP3 award expenditure deadlines. It is reviewing the grantee for additional remedial and correction actions.

OIG has received no official documentation regarding the informal consultation or the additional actions taken in response to the State of Texas' delinquency in spending its NSP3 funding. Additional remedial actions taken by HUD regarding the State of Texas' NSP3 program will help to satisfy recommendation 1B of the report. Any official documentation of remedial actions taken can be reviewed as part of the management decision process.

Comment 8 HUD stated that it took action against the State of Louisiana for missing its NSP3 expenditure deadline and provided direct onsite technical assistance from its providers. This grant has now drawn down its entire NSP3 award.

OIG has received no official documentation regarding the informal consultation, the 120-day extension of the expenditure deadline, or the finding letter issued from the field office to the State of Louisiana regarding unexpended NSP3 funds. Therefore, the audit report does not reflect these actions. Any official documentation can be reviewed as part of the management decision process.

Comment 9 HUD stated that Northern Mariana Islands received additional NSP3 funds and its expenditure deadline was moved to August 31, 2014. It added that this grantee met its deadline and showed the funds expended by the grantee.

Our review of the October 22, 2014, DRGR report showed disbursements (including program income) of \$296,855, \$3,147 less than the grant amount of \$300,002. This date was nearly 2 months after the adjusted expenditure deadline of August 31, 2014. OIG has received no official documentation related to this adjusted expenditure date or expended amounts as reported in the quarterly performance reports used to determine the expenditure amounts. Any official documentation can be reviewed as part of the management decision process.

Comment 10 HUD stated that it will continue to work with its field offices and NSP grantees to ensure that NSP expenditures submitted in the DRGR quarterly reports and other DRGR information are accurate and up to date. Additionally, DRGR workshop trainings are being scheduled for later this year for NSP grantees.

OIG acknowledges HUD's willingness to continue its work with grantees that reported missing deadlines in DRGR to ensure that expenditure information submitted is accurate and up to date.

Comment 11 HUD stated that finding 2 is not accurate. HUD agrees that OIG audit findings should be considered in policy and grantee support materials. It closely tracked audit findings, developed policy alerts and toolkits, and provided training to NSP grantees related to some of the issues addressed in OIG reports.

Finding 2 does not dispute that HUD tracked audit findings or that HUD lacked involvement in the resolutions of findings of individual grantees. The report recognized that HUD took actions that included conducting webinars and round table conferences, providing NSP toolkits, and issuing policy alerts. However, as the report states, we found instances in which HUD issued a policy alert regarding a recurring deficiency and the OIG reports issued after the policy alert continued to show the deficiency.

In addition, when asked about specific actions taken as a result of HUD OIG reports, HUD stated on May 6, 2014, that "the OIG Reports issued to date did not highlight common themes or regulatory gaps that could be used as a basis for developing new NSP policy guidance. In most cases, the OIG reports addressed a problem or concern with a particular grantee, but at a national policy level, the reports were less relevant because there was no clear pattern of problems."

HUD could have used the common trends from OIG reports on individual grantees to recognize that grantees had problems with program compliance in certain areas. It could have then provided grantees timely guidance to better ensure program success.

Appendix C

Expenditure Deadlines

Congress established expenditure deadlines for the three rounds of NSP within the appropriations acts for each round. HUD also addressed the expenditure deadlines for NSP1 and NSP3 in Federal Register issuances in which it established provisions for the recapture of any funds not spent by the deadlines.

NSP1

HERA* 2301(a) “DIRECT APPROPRIATIONS. – There are appropriated out of any money in the Treasury not otherwise appropriated for the fiscal year 2008, \$4,000,000,000, to remain available until expended, for assistance to States and units of general local government (as such terms are defined in section 102 of the Housing and Community Development Act of 1974 (42 USC [United States Code] 5302)) for the redevelopment of abandoned and foreclosed upon homes and residential properties.”

HERA 2301(c)(1) “IN GENERAL. – Any State or unit of general local government that receives amounts pursuant to this section shall, not later than 18 months after the receipt of such amounts, use such amounts to purchase and redevelop abandoned and foreclosed homes and residential properties.”

73 FR** 58340(m)(1) “Timely use of NSP funds. At the end of the statutory 18-month use period, which begins when the NSP grantee receives its funds from HUD, the state or unit of general local government NSP grantee’s accounting records and DRGR information must reflect outlays (expenditures) and unliquidated obligations for approved activities that, in the aggregate, are at least equal to the NSP allocation.”

73 FR 58340(m)(2) “Timely expenditure of NSP funds. The timely distribution or expenditure requirements of sections 24 CFR 570.494 and 570.902 are waived to the extent necessary to allow the following alternative requirement: All NSP grantees must expend on eligible NSP activities an amount equal to or greater than the initial allocation of NSP funds within 4 years of receipt of those funds or HUD will recapture and reallocate the amount of funds not expended.”

NSP2

ARRA*** Title XII “For the provision of emergency assistance for the redevelopment of abandoned and foreclosed homes, as authorized under division B, title III of the Housing and Economic Recovery Act of 2008 (‘the Act’) (Public Law 110-289)(42 USC 5301 note), \$2,000,000,000, to remain available until September 30, 2010: *Provided*, That grantees shall expend at least 50 percent of allocated funds within 2 years of the date funds become

available to the grantee for obligation, and 100 percent of such funds within 3 years of such date ...”

Deadline waiver HUD secured a waiver from the Office of Management and Budget to extend the deadline for 100 percent expenditure of NSP2 funds to September 30, 2015. HUD received approval for the waiver on April 29, 2013, citing that HUD provided compelling rationale for the need to disburse funds beyond September 30, 2013.

NSP3

Dodd-Frank,
1497(a)*****

“IN GENERAL. – Effective October 1, 2010, out of funds in the Treasury not otherwise appropriated, there is hereby made available to the Secretary of Housing and Urban Development \$1,000,000,000, and the Secretary of Housing and Urban Development shall use such amounts for assistance to States and units of general local government for the redevelopment of abandoned and foreclosed homes, in accordance with the same provisions applicable under the second undesignated paragraph under the heading “Community Planning and Development – Community Development Fund” in title XII of division A of the American Recovery and Reinvestment Act of 2009 ...”

75 FR 64336 (m)(3) “Timely expenditure of NSP2 and NSP3 funds. The timely distribution or expenditure requirements of sections 24 CFR 570.494 and 570.902 are waived to the extent necessary to allow the following alternative requirement: NSP2 and NSP3 grantees must expend on eligible NSP activities an amount equal to or greater than the 50 percent of the initial allocation of NSP funds within 2 years of receipt of those funds and 100 percent of the initial allocation of NSP funds within 3 years of receipt of those funds or HUD will recapture and reallocate the amount of funds not expended or provide for other corrective action(s) or sanction.”

- * Housing and Economic Recovery Act of 2008
- ** Federal Register
- *** American Recovery and Reinvestment Act of 2009
- **** Wall Street Reform and Consumer Protection Act

Appendix D

Unexpended NSP1 Funds

HUD did not agree that the grantee missed the deadline

Grantee	Grant number	Grant amount	Unexpended funds April 2013	Unexpended funds October 2014	Percentage of reduction
Jacksonville-Duval, FL	B-08-UN-12-0007	\$26,175,317	\$6,688,928	\$1,886,808	71.79%
Summit County, OH	B-08-UN-39-0008	\$3,767,144	\$881,565	\$247,633	71.91%
Worcester, MA	B-08-MN-25-0004	\$2,390,858	\$399,549	\$356,165	10.86%
Orange County, NY	B-08-UN-36-0102	\$2,163,744	\$254,412	\$250,673	1.47%
Louisville Jefferson County, KY	B-08-MN-21-0001	\$6,973,721	\$660,211	\$129,831	80.33%
Cuyahoga County, OH	B-08-UN-39-0002	\$11,212,447	\$377,293	\$67,142	82.20%
Palm Beach County, FL	B-08-UN-12-0013	\$27,700,340	\$927,839	\$927,839	0.00%
Dayton, OH	B-08-MN-39-0006	\$5,582,902	\$168,961	\$71,241	57.84%
Sterling Heights, MI	B-08-MN-26-0012	\$2,454,961	\$44,705	\$37,518	16.08%
Minneapolis, MN	B-08-MN-27-0001	\$5,601,967	\$20,701	\$18,974	8.34%
Totals		\$94,023,401	\$10,424,164	\$3,993,824	61.69%

HUD took action, and DRGR reflected a significant reduction in unexpended funds

Grantee	Grant number	Grant amount	Unexpended funds April 2013	Unexpended funds October 2014	Percentage of reduction
State of Texas	B-08-DN-48-0001	\$91,323,273	\$18,477,510	\$5,131,723	72.23%
Detroit, MI	B-08-MN-26-0004	\$47,137,690	\$5,097,171	\$857,286	83.18%
State of New York	B-08-DN-36-0001	\$54,556,464	\$5,200,990	\$789,697	84.82%
State of Mississippi	B-08-DN-28-0001	\$43,151,914	\$3,189,499	\$93,716	97.06%
State of Arkansas	B-08-DN-05-0001	\$19,600,000	\$1,074,882	\$93,461	91.30%
Flint, MI	B-08-MN-26-0005	\$4,224,621	\$134,177	\$478	99.64%
San Diego County, CA	B-08-UN-06-0506	\$5,144,152	\$115,824	\$115,824	0.00%
Bergen County, NJ	B-08-UN-34-0101	\$2,096,194	\$44,096	\$30,417	31.02%
Totals		\$267,234,308	\$33,334,149	\$7,112,602	78.66%

HUD took action, and DRGR showed little to no reduction in unexpended funds

Grantee	Grant number	Grant amount	Unexpended funds April 2013	Unexpended funds October 2014	Percentage of reduction
San Bernardino, CA	B-08-MN-06-0520	\$8,408,558	\$1,421,391	\$1,421,391	0.00%
Palm Bay, FL	B-08-MN-12-0021	\$5,208,104	\$676,875	\$676,875	0.00%
Paterson, NJ	B-08-MN-34-0103	\$2,266,641	\$221,869	\$157,209	29.14%
Kern County, CA	B-08-UN-06-0501	\$11,211,385	\$149,341	\$107,574	27.97%
Bakersfield, CA	B-08-MN-06-0503	\$8,982,836	\$99,050	\$99,050	0.00%
Compton, CA	B-08-MN-06-0505	\$3,242,817	\$23,526	\$21,349	9.25%
Los Angeles County, CA	B-08-UN-06-0502	\$16,847,672	\$19,768	\$19,768	0.00%
Anaheim, CA	B-08-MN-06-0501	\$2,653,455	\$2,042	\$2,042	0.00%
Totals		\$58,821,468	\$2,613,862	\$2,505,258	4.15%

DRGR showed unexpended funds in October 2014 but not in April 2013

Grantee	Grant number	Grant amount	Unexpended funds April 2013	Unexpended funds October 2014	Percentage of reduction
Antioch, CA	B-08-MN-06-0001	\$4,049,228	\$0	\$87,273	-2.16%
New Orleans, LA	B-08-MN-22-0002	\$2,302,208	\$0	\$1,000	-0.04%
Jersey City, NJ	B-08-MN-34-0101	\$2,153,431	\$0	\$190	-0.01%
Totals		\$8,504,867	\$0	\$88,463	-1.04%

Appendix E

Unexpended NSP3 Funds

HUD did not agree that the grantee missed the deadline

Grantee	Grant number	Grant amount	Unexpended funds April 2014	Unexpended funds October 2014	Percentage of reduction
Chicago, IL	B-11-MN-17-0002	\$15,996,360	\$5,816,255	\$5,816,255	0.00%
Union County, NJ	B-11-UN-34-0102	\$1,574,051	\$758,903	\$758,903	0.00%
Washington, DC	B-11-MN-11-0001	\$5,000,000	\$2,141,527	\$1,605	99.93%
Brevard County, FL	B-11-UN-12-0001	\$3,032,850	\$1,139,504	\$1,139,504	0.00%
Palm Beach County, FL	B-11-UN-12-0013	\$11,264,172	\$3,861,247	\$2,066,998	46.47%
Merced County, CA	B-11-UN-06-0009	\$2,705,877	\$925,612	\$925,612	0.00%
Imperial County, CA	B-11-UN-06-0507	\$1,708,780	\$503,384	\$503,384	0.00%
Sanford, FL	B-11-MN-12-0035	\$1,037,697	\$256,562	\$256,562	0.00%
State of Illinois	B-11-DN-17-0001	\$5,000,000	\$1,055,008	\$107,381	89.82%
Dayton, OH	B-11-MN-39-0006	\$3,115,780	\$621,758	\$455,896	26.68%
Lake County, IL	B-11-UN-17-0004	\$1,370,421	\$239,219	\$239,219	0.00%
State of Massachusetts	B-11-DN-25-0001	\$6,190,994	\$879,918	\$388,653	55.83%
Birmingham, AL	B-11-MN-01-0001	\$2,576,151	\$345,696	\$289,983	16.12%
Maricopa County, AZ	B-11-UN-04-0501	\$4,257,346	\$400,799	\$200,799	49.90%
Muskegon County, MI	B-11-UN-26-0008	\$1,071,900	\$89,577	\$11,517	87.14%
State of Iowa	B-11-DN-19-0001	\$5,000,000	\$372,771	\$14,334	96.15%
Miramar, FL	B-11-MN-12-0018	\$2,321,827	\$167,305	\$163,765	2.12%
Titusville, FL	B-11-MN-12-0037	\$1,005,731	\$71,224	\$71,224	0.00%
Kansas City, KS	B-11-MN-20-0001	\$1,137,796	\$77,979	\$77,926	0.07%
Commonwealth of Puerto Rico	B-11-DN-72-0001	\$5,000,000	\$337,600	\$59,200	82.46%
Atlanta, GA	B-11-MN-13-0001	\$4,906,758	\$308,957	\$308,957	0.00%
Elkhart, IN	B-11-MN-18-0002	\$1,022,717	\$62,116	\$45,509	26.74%
Clark County, NV	B-11-UN-32-0001	\$20,253,261	\$1,178,116	\$293,900	75.05%
Denver, CO	B-11-MN-08-0003	\$2,700,279	\$138,162	\$21,145	84.70%
Hemet, CA	B-11-MN-06-0508	\$1,360,197	\$62,889	\$62,889	0.00%
Fresno, CA	B-11-MN-06-0003	\$3,547,219	\$148,712	\$148,712	0.00%
Cuyahoga County, OH	B-11-UN-39-0002	\$2,551,533	\$96,965	\$56,718	41.51%
Martin County, FL	B-11-UN-12-0026	\$1,563,770	\$54,535	\$54,535	0.00%
State of Colorado	B-11-DN-08-0001	\$6,518,947	\$140,273	\$113,098	19.37%
Long Beach, CA	B-11-MN-06-0511	\$1,567,935	\$16,851	\$15,364	8.83%
Manatee County, FL	B-11-UN-12-0010	\$3,321,893	\$11,616	\$11,616	0.00%
Totals		\$129,682,242	\$22,281,040	\$14,681,163	34.11%

HUD took action, and DRGR showed significant reduction in unexpended funds

Grantee	Grant number	Grant amount	Unexpended funds April 2014	Unexpended funds October 2014	Percentage of reduction
Victorville, CA	B-11-MN-06-0523	\$2,159,937	\$1,290,147	\$317,364	75.40%
Richmond, CA	B-11-MN-06-0006	\$1,153,172	\$552,382	\$35,631	93.55%
Suffolk County, NY	B-11-UN-36-0103	\$1,501,506	\$570,054	\$224,270	60.66%
Warren, MI	B-11-MN-26-0014	\$1,735,633	\$554,117	\$239,288	56.82%
Compton, CA	B-11-MN-06-0505	\$1,436,300	\$454,800	\$59,942	86.82%
Tampa, FL	B-11-MN-12-0029	\$4,691,857	\$1,071,368	\$254,479	76.25%
Providence, RI	B-11-MN-44-0001	\$1,309,231	\$161,630	\$1,222	99.24%
Apple Valley, CA	B-11-MN-06-0502	\$1,463,014	\$178,241	\$51,687	71.00%
Sarasota, FL	B-11-MN-12-0036	\$1,038,811	\$103,465	\$1,153	98.89%
State of Florida	B-11-DN-12-0001	\$8,511,111	\$668,090	\$180,907	72.92%
State of Oregon	B-11-DN-41-0001	\$5,000,000	\$297,311	\$125,941	57.64%
Lake County, FL	B-11-UN-12-0008	\$3,199,585	\$165,131	\$26,093	84.20%
Tulare County, CA	B-11-UN-06-0007	\$2,845,529	\$144,914	\$8,736	93.97%
State of South Dakota	B-11-DN-46-0001	\$5,000,000	\$125,039	\$44,180	64.67%
Los Angeles County, CA	B-11-UN-06-0502	\$9,532,569	\$162,859	\$77,915	52.16%
Santa Ana, CA	B-11-MN-06-0522	\$1,464,113	\$17,813	\$1,469	91.75%
Totals		\$52,042,368	\$6,517,361	\$1,650,277	74.68%

HUD took action, and DRGR showed little to no reduction in unexpended funds

Grantee	Grant number	Grant amount	Unexpended funds April 2014	Unexpended funds October 2014	Percentage of reduction
Deerfield Beach, FL	B-11-MN-12-0005	\$1,183,897	\$691,672	\$691,672	0.00%
Moreno Valley, CA	B-11-MN-06-0513	\$3,687,789	\$2,008,065	\$2,008,065	0.00%
Miami Beach, FL	B-11-MN-12-0039	\$1,475,088	\$758,961	\$758,961	0.00%
Richmond, VA	B-11-MN-51-0001	\$1,254,970	\$614,009	\$614,009	0.00%
Newark, NJ	B-11-MN-34-0102	\$2,018,637	\$895,807	\$520,006	41.95%
Pembroke Pines, FL	B-11-MN-12-0022	\$2,330,542	\$961,403	\$876,153	8.87%
West Palm Beach, FL	B-11-MN-12-0030	\$2,147,327	\$821,693	\$623,971	24.06%
Kissimmee, FL	B-11-MN-12-0012	\$1,042,299	\$395,444	\$279,512	29.32%
Paterson, NJ	B-11-MN-34-0103	\$1,196,877	\$436,339	\$252,684	42.09%
Anderson, IN	B-11-MN-18-0001	\$1,219,200	\$368,899	\$269,884	26.84%
East Cleveland, OH	B-11-MN-39-0015	\$1,068,142	\$303,727	\$247,325	18.57%
Jacksonville-Duval, FL	B-11-UN-12-0007	\$7,102,937	\$1,967,946	\$1,967,946	0.00%
Coral Springs, FL	B-11-MN-12-0004	\$1,657,845	\$410,532	\$406,268	1.04%
Lancaster, CA	B-11-MN-06-0510	\$2,364,566	\$485,098	\$485,098	0.00%
Daytona Beach, FL	B-11-MN-12-0032	\$1,127,616	\$176,454	\$176,454	0.00%
Pomona, CA	B-11-MN-06-0516	\$1,235,629	\$183,051	\$170,689	6.75%
Lorain County, OH	B-11-UN-39-0012	\$1,619,474	\$209,226	\$175,790	15.98%

Grantee	Grant number	Grant amount	Unexpended funds April 2014	Unexpended funds October 2014	Percentage of reduction
Modesto, CA	B-11-MN-06-0004	\$2,951,549	\$364,555	\$364,555	0.00%
State of Pennsylvania	B-11-DN-42-0001	\$5,000,000	\$577,554	\$423,815	26.62%
Cleveland, OH	B-11-MN-39-0004	\$6,793,290	\$739,279	\$590,942	20.07%
Southfield, MI	B-11-MN-26-0011	\$1,084,254	\$109,862	\$109,862	0.00%
Kern County, CA	B-11-UN-06-0501	\$5,202,037	\$523,666	\$522,746	0.18%
State of Utah	B-11-DN-49-0001	\$5,000,000	\$451,591	\$451,591	0.00%
Avondale City, AZ	B-11-MN-04-0501	\$1,224,903	\$104,911	\$104,911	0.00%
Montgomery County, OH	B-11-UN-39-0006	\$1,145,712	\$90,745	\$52,767	41.85%
Butler County, OH	B-11-UN-39-0001	\$1,327,123	\$102,683	\$101,870	0.79%
Miami Gardens City, FL	B-11-MN-12-0017	\$1,940,337	\$142,738	\$108,283	24.14%
State of New York	B-11-DN-36-0001	\$5,000,000	\$296,780	\$154,949	47.79%
State of North Carolina	B-11-DN-37-0001	\$5,000,000	\$280,009	\$280,009	0.00%
State of Nebraska	B-11-DN-31-0001	\$5,000,000	\$273,600	\$269,870	1.36%
Monterey County, CA	B-11-UN-06-0010	\$1,284,794	\$68,383	\$41,687	39.04%
Rhode Island State Program	B-11-DN-44-0001	\$5,000,000	\$251,293	\$224,111	10.82%
South Bend, IN	B-11-MN-18-0011	\$1,708,707	\$78,552	\$78,552	0.00%
State of Arkansas	B-11-DN-05-0001	\$5,000,000	\$207,382	\$207,382	0.00%
Jackson County, MI	B-11-UN-26-0007	\$1,162,482	\$42,577	\$42,577	0.00%
State of West Virginia	B-11-DN-54-0001	\$5,000,000	\$179,707	\$115,735	35.60%
Prince Georges County, MD	B-11-UN-24-0002	\$1,802,242	\$62,985	\$62,985	0.00%
Charlotte County, FL	B-11-UN-12-0025	\$2,022,962	\$65,931	\$65,144	1.19%
State of Kansas	B-11-DN-20-0001	\$5,000,000	\$157,564	\$152,516	3.20%
Grand Rapids, MI	B-11-MN-26-0006	\$1,378,788	\$35,199	\$35,199	0.00%
Indianapolis, IN	B-11-MN-18-0007	\$8,017,557	\$195,496	\$154,743	20.85%
St. Petersburg, FL	B-11-MN-12-0026	\$3,709,133	\$84,500	\$84,500	0.00%
Wayne County, MI	B-11-UN-26-0006	\$7,839,293	\$156,436	\$136,401	12.81%
Flint, MI	B-11-MN-26-0005	\$3,076,522	\$11,465	\$6,442	43.81%
Trumbull County, OH	B-11-UN-39-0011	\$1,143,889	\$3,740	\$3,740	0.00%
Richland County, OH	B-11-UN-39-0010	\$1,022,278	\$2,715	\$2,715	0.00%
Detroit, MI	B-11-MN-26-0004	\$21,922,710	\$16,607,278	\$13,351,809	19.60%
San Bernardino, CA	B-11-MN-06-0520	\$3,277,401	\$2,137,751	\$2,137,751	0.00%
Pasco County, FL	B-11-UN-12-0014	\$5,185,778	\$3,163,903	\$3,163,903	0.00%
State of California	B-11-DN-06-0001	\$11,872,089	\$4,869,386	\$4,541,456	6.73%
Totals		\$176,828,665	\$44,128,542	\$38,670,005	12.37%

DRGR showed unexpended funds in October 2014 but not in April 2014

Grantee	Grant number	Grant amount	Unexpended funds April 2014	Unexpended funds October 2014	Percentage of reduction
Rialto, CA	B-11-MN-06-0518	\$1,936,370	\$0	\$116,849	-6.03%
Indian River County, FL	B-11-UN-12-0022	\$1,500,428	\$0	\$95,889	-6.39%
Essex County, NJ	B-11-UN-34-0103	\$1,851,984	\$0	\$416	-0.02%
Totals		\$5,288,782	\$0	\$213,154	-4.03%

HUD did not provide support regarding remedial actions

Grantee	Grant number	Grant amount	Unexpended funds April 2014	Unexpended funds October 2014	Percentage of reduction
Oakland County, MI	B-11-UN-26-0010	\$1,410,621	\$1,357,691	\$1,181,975	12.94%
Nassau County, NY	B-11-UN-36-0101	\$2,116,070	\$882,834	\$882,834	0.00%
State of Texas	B-11-DN-48-0001	\$7,284,978	\$1,730,347	\$1,281,158	25.96%
State of Louisiana	B-11-DN-22-0001	\$5,000,000	\$319,056	\$30,155	90.55%
Northern Mariana Islands	B-11-SN-69-0001	\$300,002	\$8,596	\$3,147	63.39%
Totals		\$16,111,671	\$4,298,524	\$3,379,269	21.39%

Appendix F

2009-14 HUD OIG Reports Regarding NSP

Item	Audit report number	Report date	Report title	Round of NSP
1	2009-AT-0801	9/24/2009	Evaluation of the Front-End Risk Assessment for the Neighborhood Stabilization Program 2	NSP2
2	2009-BO-1802	9/23/2009	The City of Boston's Department of Neighborhood Development, Boston, Massachusetts, Can Develop the Capacity to Administer Its Housing and Economic Recovery Act and American Recovery and Reinvestment Act Programs	NSP1&2
3	2009-BO-1803	9/28/2009	The City of Brockton, Massachusetts, Recipient, Building a Better Brockton, Inc., Lacked Sufficient Capacity to Effectively Administer Its Neighborhood Stabilization Program	NSP1
4	2009-CH-1801	7/29/2009	The City of Cincinnati, Ohio, Lacked Sufficient Capacity to Effectively and Efficiency Administer Its Neighborhood Stabilization Program	NSP1
5	2009-CH-1802	9/17/2009	Cook County, Illinois, Needs to Improve Its Capacity to Effectively and Efficiently Administer Its Neighborhood Stabilization Program	NSP1
6	2009-FW-0001	6/25/2009	HUD's Disaster Recovery Grant Reporting System Can Collect the Basic Information Needed to Monitor the Neighborhood Stabilization Program (Amended Report)	NSP1&2
7	2009-LA-1016	8/21/2009	State of California's Department of Housing and Community Development, Sacramento, California, Review of the Allocation Formula for the Neighborhood Stabilization Program	NSP1
8	2009-LA-1017	9/2/2009	The Los Angeles County Community Development Commission Had Sufficient Capacity and the Necessary Controls to Administer its Neighborhood Stabilization Program	NSP1
9	2009-SE-1802	9/15/2009	The State of Washington Did Not Always Allocate Its Neighborhood Stabilization Program Funds Based on Greatest Need	NSP1
10	2010-AT-0001	6/25/2010	HUD Evaluated and Selected Applications for the Recovery Act's Neighborhood Stabilization Program 2 in Accordance With Applicable Requirements	NSP2
11	2010-AT-1002	3/31/2010	Broward County, FL, Needs To Strengthen Controls Over Its Neighborhood Stabilization Program	NSP1

Item	Audit report number	Report date	Report title	Round of NSP
12	2010-AT-1012	9/3/2010	The City of Chattanooga, TN, Needs To Strengthen Controls for Tracking Obligations and Reporting for Its Neighborhood Stabilization Program	NSP1
13	2010-AT-1013	9/17/2010	The Louisville/Jefferson County Metropolitan Government Needs To Strengthen Controls Over Reporting for Its Neighborhood Stabilization Program	NSP1
14	2010-AT-1014	9/28/2010	Polk County, FL, Did Not Comply With Procurements and Contract Requirements in Its NSP and HOME Program	NSP1
15	2010-AT-1801	11/20/2009	Miami-Dade County, Florida, Needs to Strengthen Controls over Its Neighborhood Stabilization Program	NSP1
16	2010-AT-1802	12/14/2009	The City of Atlanta, GA, Needs To Improve Certain Aspects of Its NSP To Meet the Program's 18-Month Obligation Deadline	NSP1
17	2010-AT-1803	12/18/2009	Hillsborough County, FL, Has the Capacity To Administer Its Neighborhood Stabilization Program and To Accurately Enter Commitments for Its HOME Investment Partnerships Program	NSP1
18	2010-AT-1806	9/24/2010	The City of Augusta, GA, Demonstrated the Capacity To Obligate Its NSP1	NSP1
19	2010-BO-1004	1/20/2010	The City of Waterbury, Connecticut's Subrecipient, Waterbury Development Corporation, Needs to Improve Its Capacity to Effectively Administer Its Neighborhood Stabilization Program	NSP1
20	2010-BO-1801	12/7/2009	The State of Vermont's Agency of Commerce and Community Development Had Sufficient Capacity To Effectively Administer Its Neighborhood Stabilization Program	NSP1
21	2010-BO-1802	12/16/2009	The State of Maine's Department of Economic and Community Development, Office of Community Development, Has Sufficient Capacity To Effectively Administer Its Neighborhood Stabilization Program	NSP1
22	2010-BO-1804	1/20/2010	The City of Meriden, CT, Had Sufficient Capacity To Effectively Administer Its Neighborhood Stabilization Program	NSP1
23	2010-CH-0001	3/29/2010	The Office of Block Grant Assistance Lacked Adequate Controls Over the Inclusion of Special Conditions in Neighborhood Stabilization Program Grant Agreements	NSP1
24	2010-CH-1011	8/5/2010	The State of Illinois Needs To Improve Its Capacity To Effectively and Efficiently Administer Its Neighborhood Stabilization Program	NSP1

Item	Audit report number	Report date	Report title	Round of NSP
25	2010-CH-1801	1/12/2010	Wayne County, MI, Needs To Improve Its Capacity to Effectively and Efficiently Administer Its Neighborhood Stabilization Program	NSP2
26	2010-CH-1803	2/25/2010	The State of Indiana's Administrator Awarded Neighborhood Stabilization Program Funds for an Inappropriate Project	NSP1
27	2010-DE-1006	9/17/2010	City and County of Denver, CO, Did Not Properly Obligate and Report NSP1 Funding	NSP1
28	2010-KC-1006	8/20/2010	The State of Kansas Did Not Properly Obligate Its Neighborhood Stabilization Program Funds	NSP1
29	2010-LA-1004	12/29/2009	Although the County of Riverside Had Sufficient Overall Capacity, It Lacked Necessary Controls To Administer Its Neighborhood Stabilization Program	NSP1
30	2010-LA-1006	2/3/2010	City of Fresno Generally Had Sufficient Capacity and the Necessary Controls To Manage and Administer Its Neighborhood Stabilization Program	NSP1
31	2010-LA-1007	2/11/2010	The County of San Bernardino, CA, Had Questionable Capacity To Administer Neighborhood Stabilization Program Funds	NSP1
32	2010-LA-1008	3/17/2010	The City of Los Angeles Housing Department Generally Had Sufficient Capacity and Adequate Internal Controls To Administer Its Neighborhood Stabilization Program Funds	NSP1&2
33	2010-LA-1011	6/2/2010	Sacramento Housing and Redevelopment Agency Did Not Always Administer the Neighborhood Stabilization Program in Accordance With HUD Rules and Regulations	NSP1
34	2010-LA-1012	6/9/2010	Clark County, NV, Needs To Revise Its Written Procedures and Developer Agreements To Ensure Compliance With Neighborhood Stabilization Program Requirements	NSP1
35	2011-AO-1004	4/8/2011	The New Orleans Redevelopment Authority, LA, Had Not Administered Its Recovery Act Neighborhood Stabilization Program 2 in Accordance With Federal Regulations	NSP2
36	2011-AT-1005	4/6/2011	The Nashville, TN, Metropolitan Development and Housing Agency Generally Complied With Neighborhood Stabilization Program 2 Requirements	NSP2
37	2011-AT-1007	4/12/2011	The City of Miami Gardens, FL, Did Not Adequately Support Salary Costs Charged to the Neighborhood Stabilization Program	NSP1

Item	Audit report number	Report date	Report title	Round of NSP
38	2011-AT-1008	4/22/2011	Palm Beach County, FL, Did Not Fully Comply With Federal Requirements When Administering Its Neighborhood Stabilization Programs	NSP1&2
39	2011-AT-1801	11/24/2010	The City of Columbus, GA, Demonstrated the Capacity To Obligate Its NSP-1 Funds	NSP1
40	2011-BO-1007	3/21/2011	The Community Builders Expected To Expend Funding Within the Deadline and Meet Its Goals for the Neighborhood Stabilization Program 2	NSP2
41	2011-CH-1008	6/3/2011	The State of Michigan Lacked Adequate Controls Over Its Neighborhood Stabilization Program Regarding Awards, Obligations, Subgrantees' Administrative Expenses and Procurements, and Reporting Accomplishments	NSP1&2
42	2011-LA-1004	12/21/2010	The Community Development Programs Center of Nevada Did Not Fully Comply With Neighborhood Stabilization Program Requirements	NSP1
43	2011-LA-1006	2/8/2011	The City of Mesa, AZ, Needs To Improve Its Procedures for Administering Its Neighborhood Stabilization Program Grant	NSP1
44	2011-LA-1015	7/22/2011	Chicanos Por La Causa, Inc., Did Not Always Administer Its Neighborhood Stabilization Program 2 Grant as Required	NSP2
45	2011-PH-1012	6/30/2011	The City of Reading, PA, Generally Complied With Neighborhood Stabilization Program 2 Requirements	NSP2
46	2011-SE-1003	3/1/2011	Oregon Housing and Community Services Allowed a Developer To Use Neighborhood Stabilization Program Funds for Ineligible Purposes	NSP1
47	2011-SE-1004	3/28/2011	Oregon Housing and Community Services Generally Complied With Neighborhood Stabilization Program 2 Requirements	NSP2
48	2012-AT-1010	5/24/2012	The Alabama Department of Economic and Community Affairs, Montgomery, AL, Did Not Follow Its Neighborhood Stabilization Program Requirements	NSP1
49	2012-AT-1015	9/6/2012	Little Haiti in Miami, FL, Did Not Fully Comply With Federal Rules When Administering NSP2	NSP2
50	2012-CH-1007	3/30/2012	The State of Michigan Lacked Adequate Controls Over Its Use of Neighborhood Stabilization Program Funds Under the Housing and Economic Recovery Act of 2008 for a Project	NSP1
51	2012-FW-1013	8/22/2012	The Texas Department of Housing and Community Affairs, Austin, TX, Did Not Always Comply with Neighborhood Stabilization Program Requirements	NSP1

Item	Audit report number	Report date	Report title	Round of NSP
52	2012-FW-1804	8/6/2012	The City of San Antonio, TX, Did Not Administer Its Neighborhood Stabilization Program Grant in Accordance With Requirements	NSP1
53	2012-LA-1001	12/8/2011	Housing Our Communities, Mesa, AZ, Did Not Administer Its Neighborhood Stabilization Program in Accordance With HUD Requirements	NSP1
54	2012-LA-1003	12/22/2011	The City of Modesto, CA Did Not Always Comply With Neighborhood Stabilization Program 2 Requirements	NSP2
55	2012-LA-1007	6/5/2012	Los Angeles Neighborhood Housing Services, Los Angeles, CA, Did Not Always Properly Administer Its NSP2 Grant	NSP2
56	2012-LA-1008	6/15/2012	The City of Phoenix, AZ, Did Not Always Comply With Program Requirements When Administering Its NSP1 and NSP2 Grants	NSP1&2
57	2012-LA-1012	9/21/2012	The City of Long Beach, CA, Did Not Fully Comply With Federal Regulations When Administering Its NSP2 Grant	NSP2
58	2012-NY-1009	7/20/2012	The City of Newark, NJ, Generally Obligated and Expended NSP1 Funds in Accordance With Regulations but Had Weaknesses in Administrative Controls	NSP1
59	2012-PH-1001	10/24/2011	Healthy Neighborhoods, Inc., Baltimore, MD, Generally Ensured That Its Consortium Members Met Recovery Act Requirements	NSP2
60	2012-PH-1009	6/21/2012	The City of Philadelphia, PA, Generally Administered its Neighborhood Stabilization Program 2 Grant in Accordance With Applicable Requirements	NSP2
61	2013-AT-1004	4/25/2013	The City of Sarasota, FL, Did Not Always Properly Administer Its NSP2	NSP2
62	2013-LA-1006	6/17/2013	The City of Santa Ana, CA, Did Not Administer Neighborhood Stabilization Program 2 Funds in Accordance With HUD Rules and Requirements	NSP2
63	2013-CH-1006	9/15/2013	The State of Michigan Lacked Adequate Controls Over Its Neighborhood Stabilization Program Under the American Recovery and Reinvestment Act of 2009	NSP2
64	2014-CH-1002	1/6/2014	The City of Detroit, MI, Lacked Adequate Controls Over Its Neighborhood Stabilization Program Funded Demolition Activities Under the Housing and Economic Recovery Act of 2008	NSP1
65	2014-KC-1003	2/5/2014	The City of Kansas City, MO, Did Not Properly Obligate Its NSP1 Grant Funds and Allowed Its Subrecipient To Enter Into Contracts Without the Required Provisions	NSP1
66	2014-LA-0002	3/10/2014	CPD Did Not Monitor NSP Grantees' Payments of Developer Fees to Developers	NSP1, 2, & 3

Appendix G

2009-14 Most Common Deficiencies From HUD OIG Reports Regarding NSP

Lack of Documentation for Program Expenses (10):

- **2011-AO-1004, New Orleans Redevelopment Authority** – The Authority did not adequately document how it ensured that its consortium members were on target to meet performance deadlines. It did not have documentation showing the current program progress for each of the consortium members and, therefore, could not demonstrate that all consortium members were on target with performance deadlines.
- **2011-AT-1008, Palm Beach County, FL** – The County charged \$10,000 in workers compensation and \$75,000 in indirect costs without having documentation to support the charges or knowing why they were charged to the program.
- **2011-LA-1004, Community Development Programs Center of Nevada** – The Center did not have policies or procedures in place to ensure that it maintained proper documentation to support rehabilitation costs. It did not include all invoices and time sheets to support expenditures.
- **2011-PH-1012, Reading, PA** – The grantee spent program funds based solely on verbal agreements with four contractors and did not execute written contracts or purchase orders with these contractors.
- **2012-AT-1010, Alabama Department of Economic and Community Affairs** – The Department could not locate documentation, such as canceled checks, vendor invoices, home sales contracts, and settlement statements, to support expenses.
- **2012-CH-1007, State of Michigan** – The State did not maintain documentation to support its determination of the estimated fair market value of a \$3.3 million property acquisition.
- **2012-FW-1013, Texas Department of Housing and Community Affairs** – The Department was not able to support the obligations it reported to HUD in DRGR. For example, it reported obligations without executed agreements.
- **2012-LA-1007, Neighborhood Housing Services of Los Angeles** – The grantee did not maintain sufficient documentation to support its draw requests, and it could not properly trace each of its drawdowns to the activities it funded. It was not able to match rehabilitation expenses to DRGR.
- **2013-CH-1006, State of Michigan** – The State paid for increases in anticipated program costs without providing adequate support for the increased expenditures.
- **2014-CH-1002, Detroit, MI** – The City did not maintain records that adequately identified the source and application of funds provided for its activities.

Fees to and Use of Nonprofits, Developers, and Subrecipients (9):

- **2010-AT-1014, Polk County, FL** – The County allowed a nonprofit entity with whom it had no contract to acquire abandoned and foreclosed-upon properties in its name without title restrictions and sell the properties.
- **2011-LA-1015, Chicanos Por La Causa** – The grantee paid developer fees to subrecipients.

- **2012-AT-1010, Alabama Department of Economic and Community Affairs** – A subgrantee did not identify or report its program income earned. The grantee did not require its subgrantees to provide supporting documentation when submitting draw requests.
- **2012-AT-1015, Little Haiti in Miami, FL** – The grantee reimbursed itself for tenant certification services already paid for in the codeveloper fee it received for this service.
- **2012-FW-1013, Texas Department of Housing and Community Affairs** – Of 44 subrecipients, 15 did not complete the planned activities for 24 of the 58 grant agreements because the Department lacked systems and controls for selecting and helping subrecipients complete grant activities within guidelines.
- **2012-LA-1001, Housing Our Communities, Mesa, AZ** – A subrecipient did not conduct procurements with open and free competition, did not conduct a cost and price analysis, and violated conflict-of-interest requirements.
- **2012-LA-1007, Neighborhood Housing Services of Los Angeles** – The grantee made payments to a consortium member that did not comply with the consortium agreement.
- **2012-NY-1009, City of Newark, NJ** – The City approved ineligible and unsupported consultant fees.
- **2013-LA-1006, City of Santa Ana, CA** – The City reimbursed its developer more than \$669,000 for ineligible costs incurred during the acquisition and rehabilitation of single-family properties that should have been covered by the developer's fee.

Unreasonable or Excessive Expenses (8):

- **2011-AT-1008, Palm Beach County, FL** – Program funds disbursed for four home buyers exceeded amounts authorized by mortgage agreements. The County approved and disbursed funds for additional repair costs without also increasing the home buyer's mortgage amount.
- **2010-LA-1011, Sacramento Housing and Redevelopment Agency** – The Agency approved unnecessary upgrades for units that did not require upgrades based on market value.
- **2011-LA-1015, Chicanos Por La Causa** – The grantee approved acquisition expenditures, which included uncustomary real estate agency commissions totaling \$63,498 for eight properties.
- **2012-AT-1015, Little Haiti in Miami, FL** – The grantee collected payment twice for tenant certification services.
- **2012-LA-1001, Housing Our Communities, Mesa, AZ** – A subrecipient billed inflated construction costs and arranged to convert a portion of NSP funds for discretionary use.
- **2012-LA-1012, City of Long Beach, CA** – The City did not always ensure that property purchases met the 1 percent discount requirements.
- **2013-LA-1006, City of Santa Ana, CA** – The City reimbursed its developer at least \$375,000 for unnecessary bank charges (private bank loan fees).
- **2013-CH-1006, State of Michigan** – The State did not ensure that residential properties were acquired at a discount of at least 1 percent from current market value.

Supporting Administrative or Salary Expenses (7):

- **2010-CH-1011, State of Illinois** – The State did not document disbursements for wages for technical assistance personnel and the program accountant.
- **2011-AT-1007, City of Miami Gardens, FL** – The City did not support its salary allocation to the program.
- **2011-CH-1008, State of Michigan** – Accounting information for administrative expenses charged to the program were not adequately supported by payroll, time, and attendance records.
- **2011-LA-1006, City of Meza, AZ** – The City did not ensure that labor costs claimed by its subgrantee were determined in accordance with applicable cost principles because it agreed to hourly labor rates but did not ensure that these rates were consistent with the subgrantee's actual costs.
- **2010-LA-1011 Sacramento Housing and Redevelopment Agency** – The Agency allowed the developer to earn \$1,000 per week in administrative costs for the projects when the developer's fee had been budgeted for \$425,000. Administrative invoices submitted did not detail accomplishments. The payment was automatic.
- **2012-FW-1013, Texas Department of Housing and Community Affairs** – The Department spent \$8,767 on unsupported payroll and administrative costs for agreements that it had canceled.
- **2012-LA-1008, City of Phoenix, AZ** – Wage and salary costs were not adequately supported. Employees worked on multiple activities, but their payroll records did not adequately account for the distribution of time.