



# Office of Community Planning and Development, Washington, DC

## Certifications of State Disaster Grantee Procurement Processes



**To:** Stan A. Gimont, Acting Deputy Assistant Secretary for Grant Programs, DGB  
//signed//  
**From:** David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia  
Region, 3AGA  
**Subject:** HUD Did Not Always Provide Accurate and Supported Certifications of State  
Disaster Grantee Procurement Processes

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 certifications of State disaster grantee procurement processes.

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 215-430-6734.



**Audit Report Number: 2016-PH-0005**

**Date: September 29, 2016**

**HUD Did Not Always Provide Accurate and Supported Certifications of State Disaster Grantee Procurement Processes**

## Highlights

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### What We Audited and Why

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We audited the U.S. Department of Housing and Urban Development's (HUD) controls over its certifications of State disaster recovery grantee procurement processes. We initiated the audit after prior audits identified issues with the procurement certification completed for the State of New Jersey. Our objective was to determine whether HUD certifications of State disaster grantee procurement processes were accurate and supported.

### What We Found

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HUD did not always provide accurate and supported certifications of State disaster grantee procurement processes. Specifically, it (1) allowed conflicting information on its certification checklists, (2) did not ensure that required supporting documentation was included with the certification checklists, and (3) did not adequately evaluate the supporting documentation submitted by the grantees. These conditions occurred because HUD did not have adequate controls over the certification process. Due to the weaknesses identified, HUD did not have assurance that State grantees had proficient procurement processes in place and the Secretary's certifications did not meet the intent of the Disaster Relief Appropriations Act of 2013.

### What We Recommend

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We recommend that HUD perform a detailed review of the procurement procedures for each of the State grantees that received funds under the Act. If the State did not demonstrate that its procedures met requirements, HUD should (1) require the grantee to update its procedures and provide an updated certification; (2) review the updated grantee certification to confirm that the State meets requirements and has a proficient procurement process in place, thereby putting up to \$4.9 billion not yet disbursed or awarded to better use; and (3) review procurement files for contracts that were paid with funds provided under the Act and if the procurement did not comply with Federal procurement requirements, require the grantees to repay HUD from non-Federal funds for any amounts that they cannot support or were not fair and reasonable. We also recommend that HUD continue to improve the guidance that it provides to grantees to ensure that future grantee certifications are accurate and supported, continue to improve its controls to ensure that its staff adequately reviews future grantee certifications to ensure that they are accurate and supported before certifying that grantees have a proficient procurement process, and increase monitoring of State grantees that certified that they had a procurement process that was equivalent to Federal procurement standards.

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# Background and Objective

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Through the Disaster Relief Appropriations Act of 2013 (Disaster Relief Act),<sup>1</sup> Congress made available to the U.S. Department of Housing and Urban Development (HUD) \$16 billion in Community Development Block Grant funds for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization. In accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act, these disaster relief funds were to be used in the most impacted and distressed areas affected by Hurricane Sandy and other declared major disaster events that occurred during calendar years 2011, 2012, and 2013. As of November 2015, HUD had allocated more than \$14.1 billion in funds under the Disaster Relief Act to 34 grantees, including \$9.4 billion for 17 State grantees.<sup>2</sup>

As a condition of making any grant under the Disaster Relief Act, the HUD Secretary was required to certify in advance that grantees had in place proficient financial controls and procurement processes. The Secretary was also required to provide grantees with technical assistance on contracting and procurement processes. On March 5, 2013, HUD issued a Federal Register notice,<sup>3</sup> which stated that grantees had a proficient procurement process in place if the grantee had either adopted the specific procurement standards identified in 24 CFR (Code of Federal Regulations) 85.36 or had a procurement process that was equivalent to the procurement standards at 24 CFR 85.36. HUD's definition of a proficient procurement process was in line with a prior Office of Inspector General (OIG) audit report,<sup>4</sup> in which we recommended that HUD include the procurement standards at 24 CFR 85.36 in its future Block Grant Disaster Recovery grant terms and provide procurement training and technical assistance to ensure that future Block Grant Disaster Recovery grantees are aware of and follow Federal procurement standards. HUD agreed to specifically reference these standards in future grant agreements, include this topic in future conferences and webinars, and post information on specific topics on the Block Grant Disaster Recovery Web site.

To establish a basis for the Secretary to make the certifications required by the Disaster Relief Act, HUD created a certification checklist, which required grantees and HUD staff to indicate whether the grantee had adopted the specific procurement standards identified in 24 CFR 85.36 or had a procurement process that was equivalent to the procurement standards at 24 CFR 85.36. As discussed in the Federal Register notice,<sup>5</sup> grantees that elected to adopt the specific procurement standards identified in 24 CFR 85.36 were required to attach a copy of their procurement standards and indicate the sections of the standards that incorporated the specific

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<sup>1</sup> Public Law 113-2, dated January 29, 2013

<sup>2</sup> The list of State grantees is located in appendix C.

<sup>3</sup> 78 FR 14336 (March 5, 2013)

<sup>4</sup> 2013-FW-0001, dated March 28, 2013

<sup>5</sup> 78 FR 14336 (March 5, 2013)

procurement standards identified in 24 CFR 85.36. Further, States<sup>6</sup> that had a procurement process that was equivalent to the procurement standards at 24 CFR 85.36 were required to provide a crosswalk by attaching their procurement standards and indicating which sections of the standards aligned with each procurement provision of 24 CFR 85.36. After grantees submitted their certification checklists, HUD staff would complete the HUD side of the checklist, and then the Deputy Assistant Secretary for Grant Programs would sign a memorandum certifying on behalf of the Secretary<sup>7</sup> that the grantee had proficient financial control and procurement processes.

During a prior audit related to New Jersey's Sandy Integrated Recovery Operations and Management System,<sup>8</sup> we identified issues related to the certification checklist. The State and HUD both certified that the State's process was equivalent to the procurement standards at 24 CFR 85.36. However, while the State accurately portrayed its policies and procedures on the certification, the issues identified during our audit showed that the State's process was not equivalent to Federal procurement standards. For example, the State's policy did not require it to prepare an independent cost estimate and analysis before awarding the system contract to the only responsive bidder. Therefore, we concluded that both the State's certification and HUD's certification were inaccurate and unsupported.

Our objective was to determine whether HUD certifications of State disaster grantee procurement processes were accurate and supported.

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<sup>6</sup> Notice 78 FR 14336 (March 5, 2013) allowed only State grantees to elect the equivalency option, which was in line with the requirement in 24 CFR 85.36 that non-State grantees adopt the specific procurement standards laid out in 24 CFR 85.36(b) through (i).

<sup>7</sup> Notice 77 FR 31972 (May 30, 2012) delegated authority from the Secretary to the Assistant Secretary for Community Planning and Development. Notice 77 FR 38854 (June 29, 2012) further delegated authority from the Assistant Secretary for Community Planning and Development to the Deputy Assistant Secretary for Grant Programs.

<sup>8</sup> 2015-PH-1003, dated June 4, 2015

# Results of Audit

## Finding: HUD Did Not Always Provide Accurate and Supported Certifications of State Disaster Grantee Procurement Processes

HUD did not always provide accurate and supported certifications of State disaster grantee procurement processes. Specifically, it (1) allowed conflicting information on its certification checklists, (2) did not ensure that required supporting documentation was included with the certification checklists, and (3) did not adequately evaluate the supporting documentation submitted by the grantees. These conditions occurred because HUD did not have adequate controls over the certification process. Due to the weaknesses identified, HUD did not have assurance that State grantees had proficient procurement processes in place and the Secretary’s certifications did not meet the intent of the Disaster Relief Act.

### HUD Allowed Conflicting Information on Its Certification Checklists

HUD did not ensure that State grantees and HUD staff followed directions when selecting between the two procurement certification options that were available. For 6 of the 17 State certification checklists reviewed (Illinois, Maryland, Missouri, New York, Oklahoma, and Tennessee), the State grantee certified that it had adopted the specific procurement standards at 24 CFR 85.36 and had a process that was equivalent to the procurement standards at 24 CFR 85.36. For five of these six States (Illinois, Maryland, New York, Oklahoma, and Tennessee), HUD also certified that the State had adopted the specific procurement standards at 24 CFR 85.36 and had a process that was equivalent to the procurement standards at 24 CFR 85.36. For example, the excerpt below shows that both the State of Illinois and HUD selected both options when completing the certification checklist.

	Grantee	HUD
1. Has the grantee adopted the specific procurement standards identified in 24 CFR 85.36? If yes,	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
a. Has the grantee attached a copy of its procurement standards and indicated the sections of its procurement standards that incorporate 24 CFR 85.36?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
b. Do the procedures indicate which personnel or unit are responsible for each item?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
2. In the alternative (for State grantees only), are the grantee's procurement process/ standards equivalent to the procurement standards at 24 CFR 85.36? If yes,	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
a. Has the grantee attached its procurement standards and indicated the sections of its procurement standards that align with each procurement provision of 24 CFR 85.36?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
b. Do the procedures indicate which personnel or unit are responsible for each item?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
Has the grantee met the requirements of question 1 or 2? If no, explain.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	

The Federal Register notice<sup>9</sup> and the certification checklist form indicated that State grantees could select from two options – either adopt the specific procurement standards identified in 24 CFR 85.36 or have a procurement process that was equivalent to the procurement standards at 24 CFR 85.36. Because the grantees did not follow directions when selecting between the two procurement certification options, HUD did not have assurance that they understood the difference between the two options available to them and had selected the proper option. Further, HUD did not have assurance that its staff understood the difference between the two options available to State grantees and could adequately review the certification and supporting documentation to certify that the grantees had met the requirements of question 1 or 2.

### **HUD Did Not Ensure That Required Supporting Documentation Was Included With the Certification Checklists**

HUD did not ensure that State grantees attached required supporting documentation to the certification checklists. As discussed in the Federal Register notice<sup>10</sup> and instructed on the certification checklist, States that elected to adopt the specific procurement standards identified in 24 CFR 85.36 were required to attach a copy of their procurement standards and indicate the sections of the standards that incorporated the specific procurement standards identified in 24 CFR 85.36. Further, States that elected the equivalency option were required to provide a crosswalk by attaching their procurement standards and indicating which sections of the standards aligned with each procurement provision of 24 CFR 85.36. Five States did not fully comply with these requirements.

- Connecticut elected only the equivalency option and provided a copy of its procurement standards. However, it did not provide a crosswalk indicating which sections of its standards aligned with each procurement provision of 24 CFR 85.36.
- Alabama elected only to adopt 24 CFR 85.36, noted on the certification checklist that it had adopted 24 CFR 85.36 in full, and provided a copy of its procurement standards. However, it did not indicate which sections of its standards incorporated the specific procurement standards identified in 24 CFR 85.36.
- Missouri and Tennessee elected both to adopt 24 CFR 85.36 and the equivalency option and provided a copy of their procurement standards. However, they did not indicate which sections of their standards incorporated the specific procurement standards identified in 24 CFR 85.36 and did not provide a crosswalk indicating which sections of their standards aligned with each procurement provision of 24 CFR 85.36.
- Oklahoma elected both to adopt 24 CFR 85.36 and the equivalency option and provided a copy of its procurement standards. While its standards included four references to parts of sections (b) through (d) of 24 CFR 85.36, the State did not indicate which sections of its standards incorporated all of the specific procurement standards identified in sections (b) through (i) of 24 CFR 85.36 and did not provide a crosswalk indicating which

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<sup>9</sup> 78 FR 14336 (March 5, 2013)

<sup>10</sup> 78 FR 14336 (March 5, 2013)



sections of its standards aligned with each procurement provision of 24 CFR 85.36.

Because the States did not attach the documentation required to support their answers, HUD should not have certified that the States had met the requirements of question 1 or 2 on the certification checklists.

**HUD Did Not Adequately Evaluate the Supporting Documentation Submitted by State Grantees**

HUD did not ensure that the supporting documentation submitted with the certification checklists by State grantees that had selected the equivalency option was adequate to show that their procedures were equivalent to the procurement standards at 24 CFR 85.36. As discussed in the Federal Register notice<sup>11</sup> and instructed on the certification checklist, States that selected the equivalency option were required to provide a crosswalk by attaching their procurement standards and indicating which sections of their standards aligned with each procurement provision of 24 CFR 85.36.

In some cases, the crosswalks showed that the grantee had disregarded the requirement to show how its process was equivalent to the specific procurement provisions included in 24 CFR 85.36(b) through (i). For example, the crosswalk for

- Rhode Island omitted references for several portions of 24 CFR 85.36, such as sections (b)(3) through (b)(11), (c)(2) through (c)(4), and (i).
- Texas did not show how its process was equivalent to the requirements for a cost estimate and cost analysis contained in 24 CFR 85.36(f)(1)<sup>12</sup> and indicated that its process allowed for the cost plus method of contracting when the requirements at 24 CFR 85.36(f)(4) prohibit the use of this method.

CFR	Requirement	Corresponding State Statute
§85.36(f)(1)	Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications.	N/A
§85.36(f)(4)	The cost plus a percentage of cost and percentage of construction cost methods of contracting shall not be used.	N/A The cost plus method is allowable in Texas

In other cases, the crosswalks contained vague references that would have required HUD to search large portions of the State’s policies and procedures to determine whether its process was

<sup>11</sup> 78 FR 14336 (March 5, 2013)

<sup>12</sup> While the crosswalk provided by Texas summarized the requirements of 24 CFR 85.36(f)(1) as needing to perform a cost or price analysis in connection with every procurement action, it omitted the portion of 24 CFR 85.36(f)(1) that discussed the need for an independent cost estimate.

equivalent to the specific procurement provisions in 24 CFR 85.36(b) through (i). For example, the crosswalk for

- Massachusetts referenced its entire Uniform Procurement Act next to 24 CFR 85.36(f). This policy was 170 pages long and did not contain procedures that were equivalent to the requirements for an independent cost estimate and cost analysis discussed in 24 CFR 85.36(f)(1).
- Illinois referenced a 50-page section of its policy next to 24 CFR 85.36(f). However, this section of its policy referred to source selection and contract formation. Neither the selected portion nor the rest of the policy contained procedures that were equivalent to the requirements for an independent cost estimate and cost analysis discussed in 24 CFR 85.36(f)(1).
- New Jersey referenced a 32-page section of its administrative code 16 times in its crosswalk without detailing which subsection it was referring to or how the relevant procedures met the intent of the specific procurement provision. For example, next to 24 CFR 85.36(f)(1), which discusses the requirements for an independent cost estimate and cost analysis, the State provided three references to the General Services Administration's Disaster Recovery Purchasing Program, a large portion of the State's statutes, and the 32-page section of its administrative code. However, these references did not require it to prepare an independent cost estimate and analysis before awarding contracts.

Even when States provided more detailed references, the procedures were not always equivalent to the procurement provisions of 24 CFR 85.36(b) through (i). For example, on the crosswalk provided by Louisiana, it indicated that a section of its procedures that was just over one page long was equivalent to 24 CFR 85.36(f). This section of its procedures discussed requests for proposals. It did not discuss procedures that would be equivalent to the requirements in 24 CFR 85.36(f)(1) through (f)(4), which discuss independent cost estimates and cost analyses, negotiating profit as a separate element of the price for certain contracts, circumstances when using estimated costs is allowable, and the prohibition of cost plus a percentage of cost and percentage of construction cost methods of procurement.

Because the supporting documentation provided by the States that selected the equivalency option did not always demonstrate that the State's procedures were equivalent to the procurement provisions at 24 CFR 85.36(b) through (i), HUD should not have certified that the States had met the requirements of question 2 on the certification checklists.

### **HUD Did Not Have Adequate Controls Over the Certification Process**

The issues described above occurred because HUD did not have adequate controls over the certification process. For example, beyond the basic instructions on the certification checklists, HUD did not have a formal policy and standardized procedures for its staff to use when reviewing grantee certification checklists and preparing HUD's certification checklists. It also did not have guidance indicating which categories of employees were authorized to complete the

HUD certification checklist. Further, while HUD indicated that it had provided its staff several e-mails with informal guidance, it did not demonstrate that its staff was instructed to compare State procedures to each procurement provision of 24 CFR 85.36 in cases in which States certified to equivalency. Based on communication with some of the HUD staff members who completed the certification checklists discussed above, they did not always understand the difference between the two procurement certification options provided to State grantees.

### **HUD Began To Take Steps To Improve Its Certification Process**

In June 2016, HUD issued a Federal Register notice<sup>13</sup> allocating the final \$1 billion in funds available through the Disaster Relief Act to 13 grantees based on the results of its National Disaster Resilience Competition.<sup>14</sup> Of the \$1 billion, HUD allocated more than \$242 million to five grantees discussed in the finding above.<sup>15</sup> HUD updated its certification checklist for this round of funds. The updated checklist provided more guidance for grantees and HUD staff, clearly stated that only one procurement option should be selected, and indicated the HUD field office staff that should review and complete the checklist. HUD indicated that it also provided training to grantees and HUD field office staff through a webinar and by working one-on-one with them. HUD also noted that its Disaster Recovery and Special Issues Division would perform a second-level review of the checklists completed by grantees and HUD staff for funds allocated by the National Disaster Resilience Competition.

### **Conclusion**

Due to the weaknesses identified, HUD did not have assurance that State grantees had proficient procurement processes in place as required by the Disaster Relief Act and defined in its March 2013 Federal Register notice<sup>16</sup> and the Secretary's certifications<sup>17</sup> did not meet the intent of the Disaster Relief Act. Further, because HUD staff signed State certification checklists that were not completed properly and did not include adequate supporting documentation, States could believe that their procurement processes were proficient when they did not comply with requirements. As of November 2015, HUD had allocated \$9.4 billion to the 17 State grantees. As of August 2016, the States had executed grant agreements with HUD to award approximately \$5.7 billion of that funding and had received \$4.6 billion.<sup>18</sup> Because HUD did not have assurance that these grantees had a proficient procurement process in place, the \$4.6 billion disbursed was questionable. Further, the remaining \$1.1 billion<sup>19</sup> not yet disbursed under current grant agreements and more than \$3.7 billion<sup>20</sup> that had not yet been awarded to 13 grantees<sup>21</sup>

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<sup>13</sup> 81 FR 36557 (June 7, 2016)

<sup>14</sup> This competition was developed in response to requests from State, local, and tribal leaders seeking to build resilience and better prepare their communities for the impacts of climate change.

<sup>15</sup> Connecticut, Louisiana, New Jersey, New York, and Tennessee

<sup>16</sup> 78 FR 14336 (March 5, 2013)

<sup>17</sup> The Deputy Assistant Secretary for Grant Programs completed the certification memorandums on behalf of the Secretary.

<sup>18</sup> Appendix C shows the amount allocated to each State as well as the amounts awarded and disbursed.

<sup>19</sup> \$5.7 billion awarded to date - \$4.6 billion disbursed = \$1.1 billion still available under current grant agreements

<sup>20</sup> \$9.4 billion allocated - \$5.7 billion awarded to date = \$3.7 billion of allocated funds not yet awarded

<sup>21</sup> Of the 17 State grantees that received funds under the Disaster Relief Act, 4 had executed grant agreements with HUD for 100 percent of their allocated funds. The remaining 13 grantees had executed grant agreements with HUD for only a portion of their allocated funds.

could be at risk unless HUD implements our recommendations.

## Recommendations

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

- 1A. Perform a detailed review of the procurement procedures for each of the State grantees that received funds under the Disaster Relief Act. If the State did not demonstrate that its procedures incorporated the specific procurement standards included in 24 CFR 85.36(b) through (i) or that its procedures were equivalent to each individual procurement provision of 24 CFR 85.36(b) through (i), HUD should (1) require the grantee to update its procedures and provide an updated certification and (2) review the updated grantee certification to confirm that the State meets requirements and has a proficient procurement process in place, thereby putting up to \$4,872,056,594<sup>22</sup> to better use.<sup>23</sup> In cases in which HUD has not yet awarded all of the allocated funds to the State, HUD should complete these steps before it executes any additional grant agreements with the State.
- 1B. For each State grantee that did not meet the stated requirements to demonstrate that its procurement process was proficient, review procurement files for contracts that were paid with funds provided under the Disaster Relief Act and if the procurement did not comply with Federal procurement requirements, require the grantees to repay HUD from non-Federal funds for any amounts that (1) they cannot support or (2) were not fair and reasonable.
- 1C. Continue to improve the guidance that it provides to grantees to ensure that future grantee certifications are accurate and supported.
- 1D. Continue to improve its controls to ensure that its staff adequately understands and reviews future grantee certifications to ensure that they are accurate and supported before certifying that grantees have a proficient procurement process.
- 1E. Increase monitoring of State grantees that selected the equivalency option.

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<sup>22</sup> \$4,872,056,594 = \$3,753,687,461 allocated funds not yet awarded through a grant agreement + \$1,118,369,133 awarded funds that have not yet been disbursed

<sup>23</sup> We recognize that up to \$4.9 billion not yet disbursed or awarded will be used for many activities including some that will not involve a procurement action. However, HUD could not provide a reasonable, supported method to estimate the portion of these funds that will involve a procurement action.

# Scope and Methodology

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We conducted the audit from November 2015 through August 2016 at our office in Philadelphia, PA. The audit covered the period January 2013 through October 2015, but was expanded when necessary to include grant agreements and updated disbursement information for the allocations HUD made during our audit period.

To accomplish our objective, we reviewed

- Relevant background information;
- Applicable regulations and HUD notices;
- The Disaster Relief Appropriations Act, Public Law 113-2;
- The certification checklist form created by HUD and guidance provided to its staff related to completion of the checklists;
- The certification checklists completed by the State grantees and HUD staff, including all supporting documentation submitted by the grantees and notes maintained by HUD staff; and
- The certification memorandums completed by the Deputy Assistant Secretary for Grant Programs.

We held discussions with staff from HUD's Disaster Recovery and Special Issues Division and communicated with HUD staff located in various field offices as needed.

To achieve our audit objective, we relied in part on computer-processed data contained in HUD's Disaster Recovery Grant Reporting system.<sup>24</sup> We used the data to determine the amount of funds that were allocated, awarded, and disbursed to the State grantees. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purpose.

As shown in appendix C, HUD had allocated \$9.4 billion to 17 State grantees as of November 1, 2015. For each of the 17 State grantees, we reviewed the certification checklists completed by the grantees and HUD to determine whether they had followed directions when selecting between the two procurement certification options. We reviewed the supporting documentation provided by the grantees to determine whether they had complied with the requirements to attach certain documentation depending on the procurement certification option selected. For grantees that provided crosswalks, we then reviewed the face of the crosswalks to identify any inconsistencies or obvious omissions. Further, because prior audits had identified instances in which New Jersey's procedures did not require it to perform an independent cost estimate and

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<sup>24</sup> The Disaster Recovery Grant Reporting system was developed by HUD's Office of Community Planning and Development for the Block Grant Disaster Recovery funds and other special appropriations. Grantees use the system to submit action plans, draw down funds, report program income, and submit quarterly performance reports. Data from the system are used by HUD staff to review activities funded under these programs and for required quarterly reports to Congress.

cost analysis, we reviewed the State procedures referenced by the grantees for 24 CFR 85.36(f)(1).<sup>25</sup>

At the end of the audit, we obtained updated data for the \$9.4 billion in allocations from HUD's system as of August 1, 2016. This showed that HUD had executed grant agreements with the States to award approximately \$5.7 billion of the \$9.4 billion. HUD had not yet executed grant agreements with the States to award the remaining \$3.7 billion. Of the \$5.7 billion in allocated funds that had been awarded, \$4.6 billion had been disbursed. See appendix C for more details.

While this audit focused on HUD's certifications for the 17 State grantees, we found that HUD had also allocated funds to 17 non-State grantees. We reviewed the certification checklists completed by the non-State grantees and HUD to confirm that the grantees had elected to adopt the specific procurement standards included in 24 CFR 85.36. Because non-State grantees were required to follow the specific procurement provisions at 24 CFR 85.36(b) through (i) under the normal Block Grant program, we did not request or review the supporting documentation the grantees provided to HUD with their checklists.

We provided HUD a copy of the draft report for review. We had an exit conference with HUD's Acting Deputy Assistant Secretary for Grant Programs and the Director of the Disaster Recovery and Special Issues Division and discussed the audit's results and recommendations. However, HUD did not provide a formal written response. HUD stated that it would respond as part of the management decision process once the final audit report is issued. We look forward to working with HUD in arriving at management decisions to resolve and correct the issues identified in the audit.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>25</sup> In cases in which the State crosswalks referenced 24 CFR 85.36(f) as a whole, we compared and reviewed the State procedures referenced by the grantees to 24 CFR 85.36(f)(1).

# Internal Controls

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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 control was relevant to our audit objective:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.

We assessed the relevant control 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 Deficiency**

Based on our review, we believe that the following item is a significant deficiency:

- HUD did not have adequate controls over the certification process to ensure that State grantees had proficient procurement processes in place as required by the Disaster Relief Act.

# Appendixes

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## Appendix A

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### Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1A	\$4,872,056,594

- 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. In this instance, if HUD implements our recommendation, it will have assurance that State grantees have proficient procurement processes in place, thereby putting up to \$4,872,056,594 in funds not yet disbursed or awarded to better use.



## **Appendix B**

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### **Auditee Comments**

HUD chose not to provide written comments for this audit report. See the Scope and Methodology section for additional information.

## Appendix C

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### List of State Grantees

	State	Amount allocated <sup>26</sup>	Amount awarded through grant agreements <sup>27</sup>	Amount disbursed <sup>28</sup>
1	New York	\$4,416,882,000	\$2,243,000,000	\$2,185,917,717
2	New Jersey	4,174,429,000	2,901,736,000	2,093,593,066
3	Colorado	320,346,000	165,633,038	84,771,759
4	Connecticut	159,279,000	100,000,000	51,174,131
5	Oklahoma	93,700,000	83,935,650	31,586,570
6	Louisiana	64,379,084	29,921,948	13,139,424
7	Alabama	49,157,000	41,875,379	38,680,433
8	Pennsylvania	29,986,000	8,925,000	49,667
9	Maryland	28,640,000	23,440,000	12,902,920
10	Rhode Island	19,911,000	14,311,081	6,077,840
11	Vermont	17,932,000	17,932,000	12,530,672
12	Tennessee	13,810,000	9,200,000	5,119,713
13	Missouri	11,844,000	6,788,680	3,925,920
14	Illinois	10,400,000	10,400,000	4,246,658
15	Massachusetts	7,210,000	7,118,847	3,288,732
16	North Dakota	6,576,000	6,576,000	5,446,891
17	Texas	5,061,000	5,061,000	5,033,377
<b>Totals</b>		<b>\$9,429,542,084</b>	<b>\$5,675,854,623</b>	<b>\$4,557,485,490</b>

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<sup>26</sup> The amount allocated was as of November 1, 2015.

<sup>27</sup> The amount awarded through grant agreements was as of August 1, 2016.

<sup>28</sup> The amount disbursed was as of August 1, 2016.