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MEMORANDUM FOR: Robert L. Paquin, Director of Community Planning and Development, 1AD

*Kevin J. Smullen*

FROM: for John A. Dvorak, Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: 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

### **INTRODUCTION**

In accordance with our goal to review and ensure the proper administration of Neighborhood Stabilization Program (NSP) funds provided under the Housing and Economic Recovery Act of 2008 (HERA) and/or the American Recovery and Reinvestment Act of 2009 (ARRA), we conducted a capacity review of the operations of the State of Maine's (State) Department of Economic and Community Development, Office of Community Development (Department). The Department has responsibility for administering the State's NSP. Our objective was to determine whether the Department had the necessary capacity to adequately administer the State's NSP funds provided through HERA.

This memorandum report contains no recommendations. If you or your staff has any questions, please contact Kevin Smullen, Assistant Regional Inspector General for Audit, at 617-994-8380.

### **METHODOLOGY AND SCOPE**

Our review of the Department was limited to gaining an understanding of internal controls over the administration of NSP funds and related activities. To meet our objective, we reviewed HERA documentation and the approved funding agreement between the State and the Department. We also

interviewed the Department's management and staff members and reviewed its documentation such as policies and procedures, organizational charts, cost allocations, procurement actions, and job descriptions to obtain an understanding of the Department's internal controls. Our review of this documentation was limited to our stated objective and should not be considered a detailed analysis of the entire Department's internal controls or operations but only those that would affect the administration of the NSP funding provided under HERA.

We reviewed the Department's methodology for targeting the State's areas of greatest need, as defined in NSP. We also reviewed applicable files for each of the nine selected subrecipients<sup>1</sup> granted NSP funding to determine whether the respective contract files were accurate and complete. We tested specific file documentation to determine whether the Department followed its procedures regarding disbursement of NSP funds to the selected subrecipients. As of September 30, 2009, we had conducted two site visits to properties that were purchased with NSP funds.

We obtained information from the HUD Office of Community Planning and Development in Manchester, NH, to assist in determining whether the Department had the capacity to administer its NSP funds. We performed our audit fieldwork from September through October 2009 at the Department's offices located in Augusta, ME. For this report, our work was not conducted in accordance with generally accepted government auditing standards; however, this fact had no effect on the significance of the conditions identified in this report.

## **BACKGROUND**

The Maine NSP is administered by the State's Department of Economic and Community Development, Office of Community Development. The Department received \$19.6 million in NSP funds from HUD that has been provided to target emergency assistance to State and local governments to acquire and redevelop foreclosed-upon properties that might otherwise become sources of abandonment and blight within Maine communities in greatest need.

The Department proposed to use the NSP funds for the full range of allowable activities such as (1) establishing financing mechanisms for the purchase and redevelopment of foreclosed-upon homes and residential properties, (2) purchasing and rehabilitating homes and residential properties that are abandoned or foreclosed, (3) demolishing blighted structures, and/or (4) redeveloping demolished or vacant properties.

The State received an approved NSP grant agreement from HUD on January 8, 2009. The agreement, approved by the State on March 16, 2009, stipulates that the Department must obligate the NSP grant amount within 18 months from the execution of the grant and must expend the grant amount on eligible activities within 48 months from the execution of the grant. The Department had not submitted an application for NSP-2 funding under ARRA.

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<sup>1</sup> The subrecipients consist of cities and towns located within the State.

The following is a list of Federal grant programs the Department administers:

<b>Program</b>	<b>Federal funding</b>
Neighborhood Stabilization Fund (NSP1)	\$19,600,000
Community Development Block Grant (CDBG)	\$12,800,000
Community Development Block Grant - Recovery (CDBG-R)	\$ 3,400,000
Disaster Recovery Assistance - Flooding	\$ 2,200,000
<b>Total</b>	<b>\$38,000,000</b>

The NSP funds were allocated to those cities and metropolitan, urban, and other areas with greatest need, including those

- With the greatest number of foreclosures,
- With the greatest geographical density of foreclosures, and
- With the likelihood that foreclosures would increase in the community in 2009.

Nine Maine communities were determined to be areas of greatest need and were selected as subrecipients for NSP. In addition, the Department signed a memorandum of understanding on June 2, 2009, with the Maine State Housing Authority (Authority), a State component, to provide \$5 million of the \$19.6 million in NSP funds to the Authority. The Authority will use this funding to target persons whose incomes do not exceed 50 percent of the area median income (low-income targeting funds). The Authority, which will operate in the same manner as a subrecipient of the Department, will administer these funds in accordance with the following criteria:

- Target persons whose incomes do not exceed 50 percent of the area median income,
- Acquire foreclosed-upon properties and provide rehabilitation of properties to create permanent housing for the homeless and persons with special needs, and
- Use low-income targeting funds for permanent housing projects.

The Authority had not disbursed any funds from NSP.

The total NSP funding provided for the nine Maine communities (subrecipients), the Authority, and the State administrative fee is shown in the following chart.

Maine community/area	Federal funding
Sanford	\$2,472,189
Biddeford, Old Orchard Beach, Saco	\$2,184,360
Bath, Brunswick, Lisbon	\$2,008,041
South Portland, Westbrook <sup>2</sup>	\$1,742,265
Lewiston	\$1,473,103
Portland	\$1,324,136
Bangor	\$1,084,873
Auburn	\$ 921,889
Waterville <sup>3</sup>	\$ 639,144
<b>Subtotal</b>	<b>\$13,850,000</b>
Maine State Housing Authority <sup>4</sup>	\$4,900,000
State administration fee	\$ 850,000
<b>Total</b>	<b>\$19,600,000</b>

### RESULTS OF REVIEW

The Department has the capacity to ensure that NSP funds are properly administered and that all applicable Federal requirements will be complied with under HERA. Specifically, the Department’s management, financial, and procurement controls are generally adequate to ensure that (1) proper NSP expenditures will occur within the timeframes for using these funds, (2) NSP eligibility and program outcome goals will be met, and (3) NSP transparency requirements will be complied with. The following areas were reviewed in making our determination of the Department’s ability to administer the NSP funds:

**Capacity:** The Department will oversee all NSP activities of the selected 10 subrecipients. Each of the subrecipients has broad CDBG program experience. The Department has assigned personnel to work directly with each subrecipient to provide oversight of project development, implementation, and monitoring. The Department has had oversight of the State’s CDBG funding for more than 25 years, and for the past several years, it has averaged \$14 million per year in CDBG funding.

**Accountability and reporting:** The Department has incorporated the necessary accounting procedures within its system to provide adequate assurances that controls are in place to carry out NSP-related activities. The NSP accounting transactions we reviewed were adequately supported, eligible, and consistent with the activities outlined in the Department’s NSP substantial amendment.

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<sup>2</sup> NSP administered by Cumberland County.

<sup>3</sup> NSP administered by Kennebec Valley Community Action Program.

<sup>4</sup> The Authority’s \$5 million funding is comprised of the NSP grant plus an administrative fee (\$4,900,000 + \$100,000).

Our review disclosed that the Department has the necessary procedures in place to ensure proper payments to its subrecipients. We tested recent subrecipient drawdown transactions from inception through payment and determined that adequate procedures are in place. The Department, in conjunction with the Office of the State Treasurer, Department of Administrative and Financial Services, and the information technology (IT) department have security access, data input, and approval procedures adequate to protect the program. The Department reconciles each subrecipient grant account with each drawdown. As a result of our testing and interviews, we determined that the Department has sufficient capability to effectively control, monitor, and report financial transactions related to NSP.

**Contracting and procurement:** Our review determined that the Department’s contract and procurement systems are adequate to ensure the success of NSP. Contract and procurement responsibilities, including the purchase and rehabilitation of properties under NSP, will be administered by the subrecipients. The Department has signed contracts with each of its nine NSP subrecipients, and each contract/agreement stipulates that the subrecipient must follow HUD’s procurement policies and procedures as defined by 24 CFR (Code of Federal Regulations) 85.36.

In addition, our review determined that the Department will conduct annual on-site monitoring reviews of the nine subrecipients and the State component (Authority). The Department has sufficient controls over monitoring subrecipient drawdowns, change orders, and monetary adjustments to ensure the success of NSP.

**Data and computer systems:** Our review disclosed that the Department has no major control weaknesses in its computer systems relating to NSP. The Department uses Advantage ME as its primary accounting software and HUD’s Disaster Recovery Grant Reporting system to draw down funds for NSP-related activity, expenditures, and performance measures. The Department’s NSP-related payroll data are captured in a State human resource software program that feeds Advantage ME for reporting purposes. We focused our review only on the IT systems that have a direct impact on NSP operations. There were no apparent control weakness evident, and appropriate security measures are in place to protect the program.

## CONCLUSION

The Department has the capacity and adequate controls to administer its award of NSP funding in accordance with HERA requirements. Therefore, HUD can generally be assured that the Department will accurately account for its use of NSP funding under HERA.

## RECOMMENDATIONS

Based on the results of this audit, this memorandum report contains no recommendations.