



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

Fair Housing Initiatives Program



Issue Date: January 24, 2013

Audit Report Number: 2013-PH-0003

TO: Sara K. Pratt, Deputy Assistant Secretary for Enforcement and Programs, Office of Fair Housing and Equal Opportunity, ED
//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: HUD Did Not Always Adequately Monitor Enforcement Grants Awarded Through Its Fair Housing Initiatives Program

Attached is the U.S. Department of Housing and Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's oversight of private enforcement initiative grants awarded through its Fair Housing Initiatives 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 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6729.



January 24, 2013

HUD Did Not Always Adequately Monitor Enforcement Grants Awarded Through Its Fair Housing Initiatives Program

Highlights

Audit Report 2013-PH-0003

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of Private Enforcement Initiative grants awarded under its Fair Housing Initiatives program as part of our annual audit plan. Our objective was to determine whether HUD performed monitoring to ensure that enforcement grant funds were spent in compliance with grant terms and program requirements.

What We Recommend

We recommend that the Deputy Assistant Secretary for Enforcement and Programs (1) issue a directive emphasizing the importance of onsite monitoring to applicable staff, and (2) develop and implement a tracking process to ensure that grantee monitoring and related reporting are completed in accordance with HUD policies.

What We Found

HUD monitoring generally covered procedures required to ensure that grantees complied with grant terms and program requirements. However, HUD did not perform onsite monitoring as required for approximately \$10.2 million of about \$40.9 million in enforcement grants awarded during the audit period and did not always report monitoring results in a timely manner. These deficiencies occurred because program technical monitors and representatives did not perform their monitoring responsibilities in accordance with HUD policy. Also HUD did not have a system or process in place to ensure that monitoring and related reporting were consistently completed as required. As a result, there was no assurance that program requirements were fully met for grants that were not properly monitored.

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BACKGROUND AND OBJECTIVE

The U.S. Department of Housing and Urban Development's (HUD) Fair Housing Initiatives program grant funds are competitively awarded to eligible organizations. The program is administered by HUD's Office of Fair Housing and Equal Opportunity through its Fair Housing Initiatives program division. The division is responsible for administering and managing grant activities and developing and implementing national standards, policies, and practices for the program.

Fair housing organizations and other nonprofits use program funds to assist people who believe they have been victims of housing discrimination. These organizations partner with HUD to help people identify government agencies that handle complaints of housing discrimination. They also conduct preliminary investigation of claims, including implementing testing to detect instances of housing discrimination. Private Enforcement Initiative grants provided under the program are used for testing and enforcement activities to prevent or eliminate discriminatory housing practices. Testing involves the use of minorities and whites with the same financial qualifications to evaluate whether housing providers or lenders treat equally qualified people differently. The enforcement grant funds can be provided in single-year or multiyear grants, resulting in some grantees receiving more than one grant. During fiscal years 2008 and 2009, HUD awarded 156 enforcement grants totaling \$40.9 million to 91 grantees.

Grant monitoring is performed through HUD's 10 regional field offices. Grant officers, government technical representatives, and government technical monitors are responsible for the oversight and evaluation of a grantee's performance. Grant officers have signature authority to enter into, administer, and suspend or terminate a grant, while government technical representatives coordinate with government technical monitors to provide technical and financial oversight of grantees' performance.

Our objective was to determine whether HUD performed monitoring to ensure that enforcement grant funds were spent in compliance with grant terms and program requirements.

RESULTS OF AUDIT

Finding: HUD Did Not Always Adequately Monitor Enforcement Grants Awarded Through Its Fair Housing Initiatives Program

HUD monitoring generally covered procedures required to ensure that grantees complied with grant terms and program requirements. However, HUD did not perform onsite monitoring reviews as required for approximately \$10.2 million of about \$40.9 million in enforcement grants awarded during the audit period and consistently report monitoring results in a timely manner. Also, it did not implement monitoring procedures to ensure that grantees complied with standard grant conflict-of-interest provisions. However, during the audit, we determined that HUD was in the process of developing procedures to address this issue. The audit deficiencies occurred because program technical monitors and representatives did not perform their monitoring responsibilities in accordance with HUD policy. Also HUD did not have a system or process in place to ensure that monitoring and related reporting were consistently completed as required. As a result, there was no assurance that program requirements were fully met for grants that were not properly monitored.

HUD's Monitoring Reviews Generally Covered Procedures Consistent With Policy

HUD regional offices' onsite grant monitoring reviews generally included procedures required to ensure that grantees complied with grant terms and program requirements. HUD's guidebook for monitoring program grant agreements provides key review questionnaires designed to assess grantees' performance with regard to fiscal accountability, program progress, compliance with certifications, and overall administration of the program. Our review of monitoring letters obtained from the regional offices showed that the monitoring reviews generally covered the required areas.

HUD Did Not Complete Onsite Monitoring for \$10.2 Million in Enforcement Grants

Contrary to HUD policy, four regional offices did not monitor all grantees in their jurisdictions that were awarded enforcement grant funds. Paragraph 3-1 of HUD's guidebook¹ for monitoring program grants states that the purpose of onsite monitoring reviews is to allow HUD staff to meet with grantee staff and board members, see project facilities, view records, and determine grantees'

¹ Guidebook For Monitoring Fair Housing Initiatives Program Grant Agreements

compliance with grant agreement terms. In addition, an onsite monitoring review must be performed at least once during the performance period of each grant. Therefore, the regional offices should have performed at least one onsite visit for each of a total of 79 enforcement grants awarded in their jurisdictions. However, the regional offices did not conduct onsite monitoring for 37 grants valued at about \$10.2 million as shown in table 1.

Table 1

Office	Grants awarded	Grants not monitored	Percentage not monitored	Value of grants not monitored
Region 2	14	14	100%	\$ 3,524,369
Region 3	14	10	71%	3,345,838
Region 5	41	8	20%	1,932,141
Region 6	10	5	50%	1,374,414
Totals	79	37	47%	\$10,176,762

Based on the details shown in the table, the four regions collectively failed to complete onsite monitoring for 47 percent of their grants. The 37 grants in question represent 24 percent of 156 enforcement grants awarded during the audit period, and the related grant value of approximately \$10.2 million represents 25 percent of the total of \$40.9 million awarded. Because these grants were not monitored according to HUD policy, there was no assurance that the related grantees fully met grant terms and program requirements.

HUD Did Not Consistently Issue Monitoring Letters According to Policy

Policy provided in paragraph 3-6 of HUD’s guidebook for monitoring program grants requires that both positive and negative monitoring conclusions be provided via monitoring letters to grantees within 45 working days of onsite visits. Contrary to this policy, two regional offices failed to provide grantees monitoring letters within the required timeframe. In 12 cases, the regional offices sent out monitoring letters or reports 15 to 142 days late as shown in table 2 below.

Table 2

Office	Count	Grant number	Days beyond 45-day requirement
Region 1	1	FH700G07046	74
Region 1	2	FH700G08045	73
Region 1	3	FH700G08032	80
Region 1	4	FH700G08051	142
Region 4	1	FH700G06004	18
Region 4	2	FH700G08016	15
Region 4	3	FH700G09044	24
Region 4	4	FH700G07039	28
Region 4	5	FH700G08048	38
Region 4	6	FH700G08063	33
Region 4	7	FH700G09045	38
Region 4	8	FH700G09047	38

Regions 1 and 4 had 14 and 25 grants, respectively, under their jurisdiction. Based on the details in table 2, Region 1 sent 29 percent² of its monitoring letters late, and Region 4 was late in sending out 32 percent³ of its monitoring letters. HUD staff stated that the delays in issuing the monitoring letters were due to completing other assignments and that the 45-day requirement was not given priority. HUD needs to ensure that responsible staff consistently complies with the reporting requirement so that grantees receive feedback about their performance in a timely manner.

HUD Did Not Monitor Conflict-of-Interest Provisions

Attachments A and B of the program grant agreements included standard conflict-of-interest provisions and other related requirements defined as economic interest provisions. These provisions prohibited grantees from soliciting funds from lenders they had tested within a year after the testing and provided that they not have any affiliation with lenders they had tested within a year before or after the test. We reviewed 8 of the 156 grants awarded during the audit period to determine whether HUD monitoring included procedures to test the grantees' compliance with standard grant conflict-of-interest and economic interest provisions. The review disclosed that HUD did not conduct onsite monitoring for two of the eight grants. Also, the statements of work and monitoring reports for the remaining six grants showed that HUD monitoring did not include testing or procedures to determine whether the grantees complied with the grant conflict-of-interest and economic interest provisions.

² 4 divided by 14= 29 percent

³ 8 divided by 25= 32 percent

HUD's guidebook for monitoring program grant agreements did not address how to monitor grantee compliance with the standard grant conflict-of-interest and economic interest provisions. However, HUD officials stated that efforts were in progress to implement policies to ensure that grantees comply with the requirements.⁴ The new policies will be incorporated into a revised guidebook which HUD plans to issue by the end of the second quarter of fiscal year 2013, once internal and external review processes are complete.

HUD Staff Did Not Follow Onsite Monitoring Policy

Government technical monitors and representatives did not complete their responsibilities according to policy, causing the deficiencies in the monitoring process discussed above. Paragraphs 9-1 and 2-1 of HUD's guidebook for monitoring program grants states that onsite monitoring should generally be the primary method for reviewing grantees' implementation of projects and provides that grant officers, government technical representatives, and government technical monitors are responsible for the oversight and evaluation of grantees' performance. Paragraph 9-1 of the guidebook also states that remote monitoring does not replace onsite reviews. In addition, paragraphs 2-2 and 2-3 specifically provide that the government technical monitor is responsible for developing monitoring schedules and strategies for onsite reviews in conjunction with the government technical representative, who is responsible for approving monitoring schedules and strategies for onsite reviews.

With respect to the grants for which HUD did not complete onsite monitoring reviews, staff members in a couple of regions stated that they performed other types of reviews during the year and, therefore, did not deem the onsite monitoring reviews necessary. In the two regions where monitoring letters were not always sent out in a timely manner, timely reporting of monitoring results was not a priority. During the audit, HUD headquarters officials could not readily provide general information on the status of monitoring for the program grants. HUD needs to implement a tracking process at the headquarters level to ensure that its regional offices complete grantee monitoring and related reporting in accordance with its policies.

Conclusion

HUD monitoring generally covered procedures required to ensure that grantees complied with grant terms and program requirements. However, it did not perform onsite monitoring as required for approximately \$10.2 million of about

⁴ HUD had begun these efforts as a result of an audit recommendation in HUD OIG audit report number 2012-PH-1002, dated November 14, 2011, The National Community Reinvestment Coalition, Washington, DC, Did Not Comply With Conflict-of-Interest Provisions in Its Fair Housing Initiative Program Agreement With HUD.

\$40.9 million in enforcement grants awarded during the audit period and did not always report monitoring results in a timely manner. These deficiencies occurred because program technical monitors and representatives did not perform their monitoring responsibilities in accordance with HUD policy. Also, HUD did not have a system or process in place to ensure that monitoring and related reporting were consistently completed as required. As a result, there was no assurance that program requirements were fully met for grants that were not properly monitored.

Recommendations

We recommend that the Deputy Assistant Secretary for Enforcement and Programs

- 1A. Issue a directive to applicable staff, emphasizing the importance of onsite monitoring.
- 1B. Develop and implement a tracking process to ensure that the regional offices monitor grantees and issue related monitoring reports in accordance with HUD policies.

SCOPE AND METHODOLOGY

We conducted the audit from January through September 2012 at HUD's office located in Washington, DC, and our office located in Philadelphia, PA. The audit covered the period October 2008 through December 2011 but was expanded when necessary to include other periods. We did not rely on computer-processed data during the audit.

To accomplish our objective, we interviewed HUD headquarters staff and reviewed

- Relevant background information.
- Applicable HUD rules, regulations, and guidance.
- HUD's organizational chart and employee listing related to the program.
- Grant agreements, which included the statement of work between HUD and the grantees.
- Monitoring reports and other correspondence prepared by HUD and another Federal agency providing guidance to HUD.
- Federal Register notices showing grantees' funding during the audit period.

We requested and reviewed monitoring reports for 156 grants awarded during the audit period to determine whether HUD performed monitoring of the grantees. In addition, we nonstatistically selected and reviewed 8 of 156 grants to determine whether the monitoring included testing to determine whether the grantees complied with standard grant conflict-of-interest and economic interest provisions. The first four grants were selected based on the largest grant dollar amounts from Regions 1 to 4. The next four grants were randomly selected from grantees that HUD said had performed lender testing in Regions 5, 6, 9, and 10. We did not consider Regions 7 and 8 because Region 7 did not have any grants during the audit period and Region 8 had only two grants, which had been deobligated by HUD.

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. 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 objectives:

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

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 Deficiency

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

- HUD lacked a system or process to ensure that regional field offices monitored enforcement grants in compliance with its policies.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

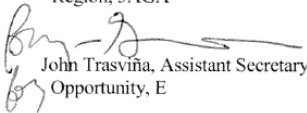


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-2000

ASSISTANT SECRETARY FOR
FAIR HOUSING AND EQUAL OPPORTUNITY

December 7, 2012

MEMORANDUM FOR: John P. Buck, Regional Inspector General for Audit, Philadelphia
Region, 3AGA

FROM:  John Trasviña, Assistant Secretary for Fair Housing and Equal
Opportunity, E

SUBJECT: Response to Draft Audit Report Memorandum Report – Enforcement
Grants Awarded Through Its Fair Housing Initiatives Program

This memorandum responds to your October 16, 2012, Discussion Draft Report – Enforcement Grants Awarded Through Its Fair Housing Initiatives Program, seeking the Office of Fair Housing and Equal Opportunity's (FHEO) comments on your draft audit report concerning your review of FHEO's oversight of its Fair Housing Initiatives Program (FHIP) enforcement grants. We appreciate the opportunity to provide comments.

The overall Finding of your draft audit report concluded that HUD did not always adequately monitor enforcement grants awarded through its Fair Housing Initiatives Program. The report, generally, raises three areas of deficiencies on which we would like to provide clarification and comment:

1. That HUD did not perform monitoring of 37 FHIP grant awards.
2. That HUD did not implement monitoring procedures to ensure that grantees complied with conflict-of-interest provisions.
3. That HUD did not have a system or process in place to ensure monitoring and related reports were consistently completed timely as required.

HUD GRANT MONITORING

The Office of Inspector General (OIG) concluded that HUD did not conduct onsite monitoring of 37 FHIP grant recipients as required by FHEO's Guidebook For Monitoring Fair Housing Initiatives Program Grant Agreements (Guidebook). The Guidebook, dated September 1996 states that grants should be monitored onsite at least once during the performance period and that remote monitoring does not replace onsite reviews. We offer for your consideration that while the Guidebook, issued in 1996, states that remote monitoring does not replace onsite reviews, in 2002, FHEO implemented "Risk-Based" monitoring as part of the Department's Compliance and Monitoring Initiative (CMI) through an FHEO Notice. The overall objective of the Risk-Based Monitoring Process is to allocate a larger share of monitoring resources to those grantees posing the highest risk. In this Notice, which remains good guidance, FHEO established criteria to determine, for each grantee, the level of risk of fraud, waste, abuse, mismanagement, and failure to accomplish

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espanol.hud.gov

Comment 1

the objectives of the grant. FHEO performs training annually on FHEO risk-based monitoring through ODOC's Compliance and Monitoring Initiative (CMI) training and field offices use the risk analysis form to determine which grantees pose the highest risk. Thus, since 2002, in accordance with our guidance, FHEO monitors some FHIP grantees onsite, based on their risk, and monitors all others remotely. We request that the OIG report consider the 2002 Notice in its assessment of FHEO's monitoring.

Comment 2

It is also important to note that, as a part of their overall responsibilities, Government Technical Monitors (GTM), Government Technical Representatives (GTRs) and Grant Officers remotely monitor grant activities on a routine basis including assuring timely submission of deliverables, adequacy of reported information, and proper and adequate submission of financial data confirming compliance with government requirements for expenditures. We request that OIG take into consideration the ongoing, day-to-day monitoring activities performed by GTRs/GTMs as evident by GTR/GTM payment approval reports and other correspondence in the grant files.

Comment 3

Further, many of the grants that OIG reviewed were multi-year grants. In accordance with the September 1996 FHIP monitoring guidebook, on-site monitoring may occur at any point during the performance period. As OIG only reviewed 2007, 2008 and 2009 grants, there were some grants that extended beyond that period and may have been scheduled for review in the following fiscal year.

Comment 4

To satisfy OIG's concerns, FHEO's Deputy Assistant Secretary for Enforcement and Programs issued a directive on December 7, 2012, to all applicable staff on the importance and requirements of conducting remote and onsite monitoring of all grantees.

MONITORING CONFLICT-OF-INTEREST PROVISIONS

Comment 5

The audit report also stated that FHEO did not monitor conflict-of-interest provisions outlined in the grant agreements. FHEO became aware of this issue under a previous OIG audit and has implemented changes to address this matter. FHEO has reiterated to its management team and grantees the importance of adhering to this provision. As noted in the report, FHEO's updated FHIP monitoring section of the Guidebook incorporates new questions for GTRs and GTMs to use when monitoring the conflict-of-interest provisions. As a result, we request that OIG amend its statement concerning FHEO's monitoring of the conflict-of-interest provisions, to note that FHEO is completing a revised Guidebook and will issue it by the end of the second quarter of FY 2013, once internal and external review processes are complete.

TIMELINESS OF COMMUNICATING MONITORING RESULTS

Comment 6

In addition, on pages 7-8 of the draft report, OIG asserted that two FHEO regional offices failed to meet established timeframes for issuing written monitoring results to the grantees. We agree with OIG's finding and will ensure that all regional offices meet the established timeframe for issuance of monitoring letters. FHEO will work with a contractor to develop and implement a tracking system to ensure that grant monitoring is being conducted and related reports are issued within established timeframes. FHEO will implement this tracking process within the next 90-120 days.

Comment 7**CONCLUSION**

Although we acknowledge OIG's concerns, FHEO believes that the draft audit report does not accurately reflect FHEO's current FHIP monitoring requirements and activities. Further, we believe the additional measures we are undertaking will address OIG's concerns and ensure more effective monitoring of FHIP grantees. We will keep you apprised of our progress as we work to implement the recommended corrective actions. Thank you for bringing these matters to our attention.

If you have any questions or need any additional information, please contact Charles Montgomery, FHEO Audit Liaison Officer, at (202) 402-6916, or Myron Newry, Director, FHIP Division, at (202) 402-7095.

OIG Evaluation of Auditee Comments

- Comment 1** We are not opposed to HUD's position that onsite monitoring be performed on grantees that pose the highest risk, and that grantees posing relatively lower levels of risk be monitored remotely. However, HUD did not mention or provide the 2002 notice it cites during the audit. When we provided the audit finding and related recommendations to HUD for feedback during the audit, HUD stated that it had no comment. Nevertheless, we have reviewed the notice HUD now cites and determined that it does not change our audit conclusion. During the audit, we requested that HUD provide documentation on all monitoring reviews/reports for the audit period. HUD provided documentation on both onsite and remote monitoring reviews. Therefore, we considered the documentation for both kinds of reviews when determining whether or not a grantee had been monitored. For the 37 grants cited in the report, HUD did not provide adequate documentation to show that either an onsite or remote monitoring review was performed.
- Comment 2** During the audit, HUD staff provided various documents to show that they performed routine reviews including progress reviews, close-out reviews, reviews of grantee tasks, and performance assessments. While these reviews constituted important aspects of grant administration, they were not sufficient evidence of grantee monitoring as required by HUD policy. As noted in HUD's guidebook for monitoring program grant agreements, specific review questionnaires are required during monitoring reviews. These include the financial, general, and enforcement review questionnaires. These questionnaires are used to identify potential problem areas or identify areas where problems are most likely to occur. However, they were not required for the routine reviews that HUD staff performed; therefore, those reviews/activities were not sufficient to show that grantees were monitored as required.
- Comment 3** Less than half (70) of the 156 enforcement grants awarded during the audit period were multi-year grants. The remaining grants were single-year grants. Also, only 12 of the 37 grants cited in the report were multi-year grants. The remaining 25 were single-year grants. The audit finding was provided to HUD for comment and discussed with HUD during the audit. However, HUD did not provide any evidence or information to show that any of the questioned grants had been scheduled for future monitoring.
- Comment 4** HUD provided us a copy of the directive it issued to applicable staff on the importance and requirements of conducting remote and onsite monitoring of all grantees. We have reviewed the directive and are encouraged that HUD has taken immediate action in response to audit recommendation 1A.
- Comment 5** We have added a statement in the report to reflect that HUD plans to issue a revised guidebook by the end of the second quarter of fiscal year 2013, once internal and external review processes are complete.

Comment 6 We are pleased that HUD plans to work with a contractor to develop and implement a tracking system to ensure that regional offices are conducting grant monitoring and issuing monitoring reports within established timeframes.

Comment 7 We conducted the audit in accordance with generally accepted government auditing standards which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. The audit disclosed that HUD did not adequately monitor 37 grants valued at \$10.2 million and consistently issue monitoring reports within 45 working days in accordance with its policy. The audit report accurately reflects these results. Although HUD states that the report does not accurately reflect current monitoring requirements and activities for its Fair Housing Initiatives program, it did not provide any additional information or documents to refute our conclusions.