

U. S. Department of Housing and Urban Development

Office of Inspector General for Investigations

Inspections and Evaluations Division



**Inspection of HUD's Recapture of Unspent
Pre-2005 Disaster Recovery Grant Funds**

September 2009
IED-08-005

Executive Summary

The Office of Inspector General, Inspections and Evaluations Division, conducts independent, objective examinations of U.S. Department of Housing and Urban Development (HUD) activities, programs, operations, and organizational issues.

We performed an inspection to determine whether HUD had appropriately recaptured unspent funds awarded from the more than \$5.3 billion in Community Development Block Grant (CDBG) Disaster Recovery funding appropriated before 2005. According to HUD data, as of August 2008, grant awards totaling \$4.7 billion had no unspent funds; 121 grant awards had unspent funds, of which HUD recaptured or deobligated more than \$17.5 million.

We obtained an overview of the Disaster Recovery grant program through discussions with HUD Headquarters Office of Community Planning and Development (CPD). We queried and analyzed pre-2005 disaster related data from CPD's automated Disaster Recovery Grant Reporting (DRGR) system. We selected 11 of the 121 grants in different parts of the country to review HUD's process for recapturing unspent funds. We obtained and reviewed the grant files and discussed the grants with cognizant HUD managers and field staff.

We found that HUD did recapture and deobligate unspent pre-2005 Disaster Recovery grant funds from expired grant contracts (appropriations statutes specify that the grant funds are to be spent within 36 months of the grant date). Unspent funds were recaptured or deobligated through HUD's Line of Credit Control System (LOCCS) as the grants expired. However, we made three observations that warrant management attention. First, HUD did not ensure that expired Disaster Recovery grants were closed out and unspent grant funds were recaptured or deobligated on a timely basis. Second, the DRGR system did not contain accurate information regarding the closeout status of expired Disaster Recovery grants. Finally, closeout documentation was missing from five Disaster Recovery grant files we reviewed.

HUD's oversight of Disaster Recovery grants can be improved by implementing steps that ensure (1) closeout of disaster grants and recapture of unspent grant funds is completed timely, (2) correct and timely grant status information is entered into the DRGR system, and (3) that formal closeout documents are included in the grant files.

HUD's Deputy Director, Office of Block Grant Assistance, reported no major issues with our observations, found the recommendations to be feasible, and stated that corrective actions were in process. We did not receive a response to follow-up requests for a more detailed explanation of these statements. We have asked the Assistant Secretary, Office of Community Planning and Development, to provide a formal response to our observations and recommendations and advise us of corrective actions taken.

If you have any questions concerning this report, please call Jennifer Sorenson, Director, Inspections and Evaluations Division, Office of Investigation, at (202) 708-0390.

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Introduction

U.S. Department of Housing and Urban Development (HUD) Disaster Recovery Assistance provides supplemental Community Development Block Grant (CDBG) funds appropriated by Congress to communities in presidentially designated disaster areas. Each supplemental appropriations statute specifies the disasters or period of disaster declarations for which funding is available. Unless otherwise restricted by statute or provided by waiver, the disaster funds may be used for any activity eligible under section 105(a) of the Housing and Community Development Act of 1974, as amended, that meets a national objective under the Act and is related to the disaster. Generally, at least 50 percent of the funds must be for activities that principally benefit persons of low and moderate income. Grantees must report program progress quarterly via a Web-based Disaster Recovery Grant Reporting (DRGR) system.¹

CDBG Disaster Recovery Assistance is authorized under Title I of the Housing and Community Development Act of 1974 as amended. Program rules are published in the Federal Register pursuant to specific appropriation acts. The Office of Community Planning and Development (CPD), Office of Block Grant Assistance administers the program. CDBG Disaster Recovery Assistance funds are made available to States, units of general local governments, Indian tribes, and insular areas designated by the President of the United States as disaster areas.²

HUD provides notice of these funds to eligible governments, which then develop and submit an action plan for disaster recovery to HUD for approval before receiving CDBG Disaster Recovery grants. The action plan describes the needs, strategies, and projected uses of the Disaster Recovery Assistance funds. Generally, the grant agreement contract requires that grant funds be spent within 3 years of the grant contract date.

¹ U.S. Department of Housing and Urban Development, “Disaster Recovery Assistance,” <http://www.hud.gov/offices/cpd/communitydevelopment/programs/drsi/driquickfacts.cfm>, (Content current 25 August 2009)

² U.S. Department of Housing and Urban Development, “CDBG Disaster Recovery Assistance,” <http://www.hud.gov/offices/cpd/communitydevelopment/programs/drsi/index.cfm>, (Content current 25 August,

Pre-2005 Disaster Recovery Grant Funding

Congress appropriated more than \$5.3 billion in CDBG Disaster Recovery Assistance funding before 2005, as shown below.³

Fiscal year	Amount	Purpose
2002	\$2.783 billion	To assist with recovery post-Sept. 11 in New York City
2001	\$700 million	To assist with recovery post-Sept. 11 in New York City
1999	\$20 million	To assist with recovery from multiple disasters
1998	\$130 million	To assist with recovery from multiple disasters
1997	\$500 million	To assist with recovery from upper Midwest floods
1996	\$50 million	To assist with recovery from multiple disasters
1995	\$39 million	To assist with recovery from the Oklahoma City bombing
1994	\$580 million	To assist with recovery from Tropical Storm Alberto (\$180 million) and Northridge earthquake (\$400 million)
1993	\$450 million	To assist with recovery from Midwest floods
1992	\$85 million	To assist with recovery from Hurricanes Andrew and Iniki and Typhoon Omar
Total	\$5.337 billion	

HUD Rules and Notices

Per HUD Handbook 6509.2 REV-5, Chapter 6, Disaster Recovery grants are made from CDBG supplemental appropriations. HUD's basic requirements for a Disaster Recovery grant mirror standard CDBG entitlement and State program grants and include similar monitoring protocols and program risk analyses. When HUD waives or makes modifications to the supplemental grant rules, these changes are published in a Federal Register notice. HUD does not waive or modify financial management, environmental, labor, or civil rights requirements.

As provided at 24 CFR (Code of Federal Regulations) 1003.508, grantees must submit grant closeout documents within 90 days after program expiration. Disaster Recovery grant closeout is guided by Notice CPD-98-03 for grants to states and governed by 24 CFR 570.509 for grants to entitlement cities or counties.

Special contract conditions attached to the grant funding approval/agreements (form HUD-7082, Section B) state that all funds made available under the grant agreement must be expended within 36 months.

³ See footnote 1.

Scope and Methodology

We initiated the review by researching general background information on disaster funding, HUD grant requirements, and related regulations. We contacted CPD in headquarters (HQ) and obtained a schedule of pre-2005 disaster funding and recaptured funds. As of August 2008, HUD's records showed that a total of 121 pre-2005 Disaster Recovery grants had unspent funds totaling more than \$17.5 million.

We selected 11 of the 121 Disaster Recovery grants for detailed review. The selected grant files were associated with HUD disaster recovery efforts in different parts of the country and grants with large recaptured amounts, and represented various HUD field offices. To augment our file review, we conducted one site visit to the San Francisco field office to meet with HUD CPD management and staff, review selected grant files, and discuss our observations and obtain comments.

We also were provided access to the DRGR database and Line Of Credit Control System and queried information on Disaster Recovery grants.

We initiated the review in August 2008. The review was suspended in October 2008 at the request of HUD CPD at HQ until January 2009 because of workload conflicts related to ongoing disaster recovery and new funding appropriations. The field work resumed in January 2009 and was completed in March 2009.

We conducted the inspection in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

Observations

HUD did recapture and deobligate unspent pre-2005 Disaster Recovery grant funds from expired grant contracts, as required. Unspent funds totaling \$17.5 million were recaptured or deobligated through HUD's Line of Credit Control System (LOCCS) as the grants expired. However, in our review of the grant files, we noted three observations that warrant management attention.

Observation 1: Closeout of Disaster Recovery Grants and Recapture of Unspent Funds Were Not Always Timely

Our inspection found that HUD did not always close out or recapture unspent or unobligated grant funds from expired Disaster Recovery grants in a timely manner. As illustrated below, the closeouts and recaptures for six grants that we reviewed occurred from several months to more than two years after the grant contract expired.

Grant	Contract expiration date	Date closeout signed	Recaptured amount	Date recaptured
B-98-DD-12-0001	03/31/04	08/18/04	\$2,374,242	08/19/04
B-98-DD-26-0001	10/18/03	09/07/05	\$2,553,350	09/21/04
B-98-DD-33-0001	10/30/03	08/29/05	\$829,337	After 08/08/05
B-98-DD-42-0001	09/30/06	04/21/08	\$320,244	After 02/08/08
B-98-MU-72-0008	09/30/05	11/30/05	\$1,197,983	After 09/27/05
B-98-DD-06-0001	04/25/04	03/19/08	\$720,940	About 09/27/06

We reviewed the chronology for each of the six grants. For example, grant number B-98-DD-33-0001 was administered by HUD’s Manchester, NH, office. This \$3 million grant was awarded on October 30, 2000, to the State of New Hampshire for unmet disaster recovery needs related to two severe storm disasters in 1998. Our review disclosed that the grantee had spent \$2,170,663 as of December 18, 2003. However, the grant was not closed out until August 29, 2005, or 22 months after contract expiration. Similarly, HUD did not recapture the unspent grant balance of \$829,337 until after August 8, 2005, more than 21 months after contract expiration.

Observation 2: DRGR System Contained Inaccurate Grant Closeout Status Information

Our inspection showed that the DRGR database system did not contain accurate closeout status information. Although HUD’s CPD program staff at HQ stated in September 2008 that all of the 1998 disaster recovery grants were closed, we discovered conflicting information on the 1998 grants in the DRGR system. As of February 11, 2009, the DRGR system showed that most (67 percent) of the 1998 Disaster Recovery grants were still active.

Status as of 02/11/09	Number of grants	%
Active	73	67%
Ready to close	26	24%
Closed	10	9%
Total	109	

We specifically reviewed the six 1998 disaster recovery grants shown in observation 1 in the DRGR system. None were listed as closed—two were active and four were “ready to close”—as shown on the following page:

Grant	Contract expiration date	Date closeout signed	Recaptured amount	Grant status in DRGR (as of 2/11/09)
B-98-DD-12-0001	03/31/04	08/18/04	\$2,374,242	Active
B-98-DD-26-0001	10/18/03	09/07/05	\$2,553,350	Ready to close
B-98-DD-33-0001	10/30/03	08/29/05	\$829,337	Ready to close
B-98-DD-42-0001	09/30/06	04/21/08	\$320,244	Ready to close
B-98-MU-72-0008	09/30/05	11/30/05	\$1,197,983	Active
B-98-DD-06-0001	04/25/04	03/19/08	\$720,940	Ready to close

It is important to have accurate data in the DRGR system because these data are used by HUD staff to review Disaster Recovery grant activity and provide quarterly reports to the Congress.

HUD developed the DRGR system to assist grantees in identifying activities funded under their grant’s action plan and amendments, along with budgets and performance goals for those activities. After the action plan is submitted and approved, grantees submit their quarterly reports summarizing obligations, expenditures, drawdowns, and accomplishments for activities funded by each grant using the system.

HUD staff can access the DRGR system online and review the information entered. The required quarterly report contains space for HUD field staff to make notes about each grant activity. HUD staff can also query the DRGR to identify active users, locate timely and late reports and reviews, and answer various other questions. HUD may reject the grantee’s quarterly reports as many times as necessary to ensure that the reports have been completed correctly.

About 37 days after the end of each calendar quarter, HUD HQ draws Disaster Recovery grant data from the DRGR system. These data provide the basis for quarterly reporting to Congress.

Observation 3: Disaster Recovery Grant Closeout Documentation Was Missing

We noted that closeout documents for several 1997 and 1998 Disaster Recovery grant were missing from official files. These formal documents included closeout agreements and closeout certifications that should be signed by HUD staff and the respective grantees and a financial status report (Standard Form 269).

While the files for the grants listed in observations 1 and 2 above did contain closeout documents, files for the five grants listed below did not, and they were also incorrectly reported as being active or “ready to close” in the DRGR system.

Grants	Date grant expired	Recaptured amount	Grant status in DRGR (as of 2/11/09)
B-98-NU-06-0030	05/21/03	\$36,730	Active
B-97-DU-06-0001	01/23/01	\$252,723	Active
B-98-MU-06-0003	09/30/02	\$51,105	Ready to close
B-97-UU-06-0009	02/03/01	\$77,928	Active
B-99-RK-06-0004	09/04/01	\$247,199	Active

HUD staff stated that the unspent funds were recaptured for each of the five grants, but acknowledged that they did not have the closeout agreements or closeout certifications. Consequently, it appears that HUD had not formally closed out these five grants with the grantees.

Recommendations

We recommend that HUD improve its oversight of Disaster Recovery grants and grantees by implementing procedures to ensure

1. Disaster Recovery grants are closed out and unspent funds are recaptured or deobligated in a timely manner.
2. Grantees enter correct and timely Disaster Recovery grant status information into the DRGR system.
3. Formal closeout documents are completed in a timely manner and included in Disaster Recovery grant files.

HUD's Deputy Director, Office of Block Grant Assistance, reported no major issues with our observations, found the recommendations to be feasible, and stated that corrective actions were in process. We did not receive a response to follow-up requests for a more detailed explanation of these statements. We have asked the Assistant Secretary, Office of Community Planning and Development, to provide a formal response to our observations and recommendations and advise us of corrective actions taken.