



**Vermont Department of Housing and  
Community Development,  
Montpelier, VT**

**Disaster Recovery Programs**



Issue Date: September 29, 2014

Audit Report Number: 2014-BO-1004

TO: Robert Shumeyko,  
Director, Office of Community Planning and Development, Boston Hub, 1AD

**//SIGNED//**

FROM: Edgar Moore,  
Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: The Department of Housing and Community Development, Montpelier, VT, Did Not Always Operate Its Disaster Recovery Programs Effectively and Efficiently

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Vermont Department of Housing and Community Development's disaster recovery programs.

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 (212) 264-4174.



# Highlights

Audit Report 2014-BO-1004

September 29, 2014

## The Department of Housing and Community Development, Montpelier, VT, Did Not Always Operate Its Disaster Recovery Programs Effectively and Efficiently

### What We Audited and Why

We audited the State of Vermont, Department of Housing and Community Development's disaster recovery programs. We initiated this audit because of the significant funding awarded and the Boston Office of Community Planning and Development's concerns about the State's capacity to administer this funding. Our audit objective was to determine whether the State administered its disaster recovery programs effectively and efficiently in accordance with applicable regulations; specifically, whether the State had (1) the capacity to administer its disaster programs, (2) established and implemented controls to ensure that program activities were adequately documented and administered, and (3) expended funds for eligible activities.

### What We Recommend

We recommend that the U.S. Department of Housing and Urban Development (HUD) require the State to determine the portion of the \$13.2 million in disaster recovery funds that it believes will not be expended by the December 10, 2015, deadline and request a waiver from HUD for an extension and hire additional staff sufficient to ensure its disaster recovery programs are administered effectively.

### What We Found

The State expended funds for eligible activities; however, it did not always administer its Community Development Block Grant Disaster Recovery programs (CDBG-DR1 and -DR2) effectively and efficiently in accordance with all program requirements. Specifically, it did not (1) have the staffing capacity to administer its disaster recovery programs in accordance with all program requirements, (2) submit all quarterly performance reports in a timely manner, (3) perform adequate monitoring or oversight of funded activities, (4) follow HUD requirements regarding substantial and nonsubstantial amendments to action plans, and (5) correct discrepancies contained in quarterly progress reports submitted by subrecipients. This condition occurred because the State relied on its existing staff for oversight of CDBG-DR1 program activities and failed to hire sufficient staff to oversee both the CDBG-DR1 and -DR2 programs. As a result, there is a risk that the program mission will not be accomplished and that obligated CDBG-DR2 funding of \$13.2 million will not be expended by the deadline of December 10, 2015. In addition, HUD lacked assurance that the State and its subrecipients complied with laws, regulations, grant agreements, and program requirements.

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## **BACKGROUND AND OBJECTIVE**

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The State of Vermont's Agency of Commerce and Community Development is organized into three departments (1) the Department of Economic Development, (2) the Department of Tourism and Marketing, and (3) the Department of Housing and Community Development, which is responsible for administering the Community Development Block Grant (CDBG) program funded by the U.S. Department of Housing and Urban Development (HUD).

The Community Development Block Grant Disaster Recovery (CDBG-DR) assistance program was authorized under Title I of the Housing and Community Development Act of 1974. Disaster recovery funds may be used for activities such as buying, constructing, and rehabilitating homes, buildings, or structures; enhancing public facilities; or providing public services, such as assistance to homeowners and businesses that create jobs. The funds may not be used on activities when they duplicate funding already made available from the Federal Emergency Management Agency, the Small Business Administration, the U.S. Army Corps of Engineers, etc.

Section 239 of the HUD Appropriations Act of 2012 (Pub. L. 112-55, approved November 18, 2011) made available up to \$400 million in disaster funding (CDBG-DR1) until expended. The law provides that grants may be awarded directly to a State or unit of general local government at the discretion of the HUD Secretary. Of the \$400 million, more than \$21.6 million (under grant number B-12-DT-50-0001 DF3) was allocated to Vermont for use on disaster recovery activities in Vermont's Washington and Windsor Counties, which saw the greatest degree of damage from flooding, primarily from Hurricane Irene.

On January 29, 2013, Congress passed the Disaster Relief Appropriations Act (Public Law 113-2), which consisted of a supplemental appropriation to improve and streamline disaster assistance for Hurricane Sandy, but it also expanded the use of the funding for other eligible events that occurred in calendar years 2011, 2012, and 2013. As a result, Vermont received another allocation of disaster funding (CDBG-DR2) of more than \$17.9 million (under grant number B-13-DS-50-0001), which will remain available through September 30, 2017. The State of Vermont asked HUD to obligate only about \$13.2 million, or approximately 74 percent of the total \$17.9 million in CDBG-DR2 funds allocated to Vermont. As projects get underway, the State plans to amend its action plan and request that HUD obligate the additional funds, thus starting a new 2-year expenditure timeline for the additional funds requested. The State will have until June 1, 2017, to submit an amendment to budget the remaining \$4.7 million.

The objective of the audit was to determine whether the State administered its disaster recovery programs effectively and efficiently in accordance with applicable regulations. Specifically, we wanted to determine whether the State had (1) the capacity to administer its disaster recovery programs, (2) established and implemented the necessary controls to ensure that program activities were adequately documented and administered, and (3) expended funds for eligible activities.

## RESULTS OF AUDIT

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### Finding: The State Did Not Always Administer Its Disaster Recovery Programs Effectively and Efficiently

The State of Vermont, Department of Housing and Community Development expended the funds tested for eligible activities; however, it did not always administer its disaster recovery programs (CDBG-DR1<sup>1</sup> and -DR 2<sup>2</sup>) effectively and efficiently. Specifically, state officials did not (1) have the staffing capacity to administer the disaster recovery programs in accordance with all program requirements, (2) submit all quarterly performance reports in a timely manner, (3) perform adequate monitoring or oversight of funded activities, (4) follow HUD requirements regarding substantial and nonsubstantial amendments to action plans, and (5) correct discrepancies contained in quarterly progress reports submitted by subrecipients. These deficiencies occurred because the State relied on its existing staff for oversight of CDBG-DR1 program activities and failed to hire sufficient staff to oversee both the CDBG-DR1 and -DR2 programs. As a result, there is a risk that the program mission will not be accomplished and that obligated CDBG-DR2 funding of \$13.2 million will not be expended by the deadline of December 10, 2015. In addition, HUD lacked assurance that the State and its subrecipients complied with laws, regulations, grant agreements, and program requirements.

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#### **The State Lacked the Capacity To Administer Disaster Recovery Programs**

State officials did not have the capacity to properly administer the disaster recovery grants as certified to per the Federal register section VI(35)(M) (see Appendix C for criteria). On January 20, 2012, the HUD Secretary announced that \$21.6 million would be allocated to the State to support disaster recovery efforts, primarily for flooding from Hurricane Irene. The State's action plan submitted to HUD on July 20, 2012, showed that the State planned to rely on its existing staff to oversee CDBG-DR1 program activities. Although there is no expenditure deadline for CDBG-DR1 funding, HUD regulations [FR, Section VI(30)] state that each grantee is expected to promptly obligate and expend all funds. In the summer of 2012, when it became clear that it needed additional staff to operate the CDBG-DR1 program, State officials began a search for a grant management specialist to work exclusively with disaster recovery programs.

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<sup>1</sup> The HUD Appropriations Act (CDBG DR1) passed by Congress on November 18, 2011 states funds were allocated to Vermont for use on disaster recovery activities in Vermont's Washington and Windsor Counties, which saw the greatest degree of damage from flooding, primarily from Hurricane Irene.

<sup>2</sup> The HUD Disaster Relief Appropriations Act (CDBG DR2) passed by Congress on January 29, 2013 consisted of a supplemental appropriation to improve and streamline disaster assistance for Hurricane Sandy, but it also expanded the use of the funding for other eligible events that occurred in calendar years 2011, 2012, and 2013.

However, the grant management specialist did not officially begin working until March 11, 2013. Because a new position had to be created and approved, it was several months before the State was able to advertise this position and find the appropriate candidate.

On March 27, 2013, the HUD Secretary announced that \$17.9 million (in CDBG-DR2 funds) would be allocated to help Vermont communities recover from the lingering effects of Hurricane Irene.<sup>3</sup> This amount supplemented the \$21.6 million awarded in January 2012. As a result of this announcement, the staffing level was increased with the hiring of two additional staff members, an environmental officer and a grant specialist.

Having an environmental officer is beneficial for community planning and development programs. However, the hiring of the environmental officer was not directly related to the disaster recovery programs but, rather, was based on the recommendations from a HUD environmental review performed June 24-25, 2013. In addition, most of the environmental officer's time was spent on the CDBG and HOME Investment Partnerships programs, with only a small percentage of her time being spent on the CDBG-DR programs. The State's primary needs for disaster recovery included staff to perform compliance oversight and monitoring, along with financial oversight and analysis of independent public auditor reports.

The grant specialist added for disaster recovery was transferred from the State's Division of Community Planning and Revitalization within the Agency of Commerce and Community Development. The grant specialist was initially used to assist another grant specialist who oversaw the regular CDBG program and was unable to work a 40-hour week. The grant specialist did not officially begin working until October 2013, approximately 7 months after the HUD Secretary's announcement.

The State was responsible for an active Housing Acquisition and Rehabilitation Program, involving HUD's Neighborhood Stabilization Programs 1 and 3, CDBG program, and HOME program. However, the State had only one main person responsible for the review and analysis of the independent public audit reports, and she worked primarily on the CDBG program, spending less than 2 percent of her time on disaster recovery activities. This same person was responsible for closeout agreement management and assisting with financial management monitoring and oversight of the regular CDBG program. A State official stated that in addition to the grant management specialist and grant specialist recently hired, there was a need for an additional grant management specialist for disaster recovery programs for compliance oversight and monitoring and one more grant management specialist for review and analysis of independent public auditor

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<sup>3</sup> The State asked HUD to obligate only \$13.2 million of the total \$17.9 million in funds allocated to it. When projects were underway, the Agency planned to amend its action plan and request that HUD obligate the additional \$4.7 million. The State will have until June 1, 2017, to submit an amendment to budget the remaining \$4.7 million.

reports. The State had significant unexpended funding. As of June 5, 2014, about \$7 million of the \$21.6 million awarded for CDBG-DR1 had been expended, and only \$190,220 of the \$17.9 million awarded for CDBG-DR2 had been expended.

### **Quarterly Performance Reports Were Not Submitted in a Timely Manner**

The primary reports HUD requires for disaster recovery activities are the quarterly performance reports. The State failed to submit the quarterly performance reports to HUD in a timely manner. It submitted a total of five quarterly performance reports covering periods ending from December 31, 2012, to December 31, 2013. HUD dictates that reports are due no later than 30 days following the end of each calendar quarter<sup>4</sup>. However, only one of the reports was submitted in a timely manner. The number of late days for the remaining five reports ranged from 54 to 295 days. For example, the report for the period ending December 31, 2012, was due on January 31, 2013, but was not submitted until May 31, 2013, and the report for the period ending June 30, 2013, was due on July 31, 2013, but was not submitted until December 9, 2013. It should be noted that all outstanding quarterly performance reports have been subsequently submitted.

### **There Was a Lack of Proper Monitoring**

We noted deficiencies with several of the State's onsite monitoring reviews of subrecipients. Specifically, the State (1) did not maintain documentation supporting the monitoring work performed, (2) failed to notify a subrecipient of the results of the review in a timely manner, and (3) did not follow up to determine that identified deficiencies had been resolved (per HUD Handbook 6509, Chapters 2-10, 2-14(A) and 2-12(B)(1) see Appendix C for specific criteria).

For example, an onsite monitoring performed by the State on September 13, 2013, of the Two Rivers-Ottawaquechee Regional Commission (subrecipient) was not adequately supported. The State subgranted CDBG-DR1 funding to this subrecipient to administer its buyout program. However, there was no documentation to support the details of the review, including checklists, notes, writeups, or other documentation supporting monitoring work or activities (per HUD handbook 6509, Chapter 2-14(A)). With no documentation, HUD could not substantiate that all procedures were followed.

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<sup>4</sup> Federal Register [Docket No. FR-5628-N-01] Disaster Recovery DR-1 Section VI(31)(B)



In addition, the State failed to notify the Central Vermont Community Action Council (subrecipient) on a timely basis regarding the results of an onsite monitoring review it performed on November 7, 2013. The State sent the letter notifying the subrecipient of the results of the review on May 20, 2014, about 6 months after the site visit was performed. However, HUD regulations dictate that a monitoring letter be sent within 60 days after completion of monitoring to the program participant describing the results of the review (HUD handbook 6509, Chapter 2-10).

Also, there was no evidence that the State maintained documentation to substantiate how findings from a September 25, 2013, onsite monitoring review at the Brattleboro Development Credit Corporation (subrecipient) were resolved. The State requested a response by November 22, 2013, stating how these findings were resolved, but there was no evidence that the State followed up to ensure how or whether the deficiencies noted were corrected (HUD handbook 6509, Chapter 2-12(B)(1)).

### **HUD Requirements Regarding Amendments to Action Plans Were Not Followed**

The State submitted a revised action plan for a substantial amendment, which involved moving funds from the mobile home financing activity to the competitive municipal infrastructure activity. The action plan also noted changes in completion dates for its buyout and housing recovery programs. However, the State did not follow Federal Register requirements (sections VI (1) G) for action plans with substantial amendments, which provide that the beginning of every amended action plan must include a section that identifies exactly what content is being added, deleted, or changed and shows a chart or table that clearly illustrates where funds are coming from and where they are moving to. In addition, the action plan did not include a revised budget allocation table that reflected all of the funds as amended. The State also failed to post the amendment to its Web site as required (section VI (2) B).

### **Discrepancies Were Noted in Progress Reports**

We found inaccuracies or inconsistencies in the quarterly progress reports submitted by two subrecipients; specifically, the Brattleboro Development Credit Corporation and the Central Vermont Community Action Council. The State subgranted funding to the two agencies to provide business assistance in the form of grants and loans to meet businesses' unmet needs. The actual to-date figures reflected in the quarterly reports ending December 31, 2013, for the number of businesses assisted and jobs created were reported incorrectly based on a comparison to the actual to-date figures in the prior quarter (period ending

September 30, 2013). A State official stated that this error may have been attributed to software problems in the system(s) interfacing with HUD. The State's policy was to have a grant specialist verify the accuracy of data in the progress reports submitted by subrecipients; however, limited staffing hindered these efforts.

## Conclusion

The State did not adequately administer its disaster recovery programs as officials relied on the State's existing staff for oversight of CDBG-DR1 program activities and failed to hire sufficient staff to oversee both the CDBG-DR1 and -DR2 programs. By not having sufficient staffing to administer its disaster recovery programs, there is a risk that the program mission will not be accomplished and that obligated CDBG-DR2 funding of \$13.2 million will not be expended by the deadline of December 10, 2015. In addition, because of the State's failure to submit performance reports in a timely manner, perform proper monitoring or oversight of funded activities, follow HUD requirements regarding substantial and nonsubstantial amendments to action plans, and correct discrepancies in progress reports, HUD lacked assurance that the State and its subrecipients complied with laws, regulations, grant agreements, and program requirements.

## Recommendations

We recommend that the Director of HUD's Boston Office of Community Planning and Development require State officials to

- 1A Determine the portion of the \$13.2 million in CDBG-DR2 funds that the State believes will not be expended by the December 10, 2015, deadline and request a waiver in a letter to HUD justifying the necessity for extending the deadline and identify the date by when the specified portion of funds will be expended, to ensure that these funds are put to their intended use.
- 1B. Develop controls that will allow for sufficient staff to be hired to ensure that the disaster recovery programs are administered effectively.

## SCOPE AND METHODOLOGY

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We performed our onsite audit work at the State's main office located at One National Life Drive, Montpelier, VT, from January to May 2014. Our audit generally covered the period August 1, 2011, to December 31, 2013, and was extended when necessary to meet our objective. We relied in part on computer-processed data for obtaining information on the State's expenditure of disaster recovery funds. We performed a minimal level of testing and found the data to be adequate for our purposes.

To accomplish our audit objective, we

- Reviewed applicable laws, regulations, HUD handbooks, HUD notices, and the State's policies and procedures, including its action plans.
- Conducted discussions with State officials to gain an understanding of the State's financial structure, procurement practices, reporting activities, monitoring policies, applicant selection process, and staffing capacity issues.
- Evaluated internal controls and reviewed computer controls to identify potential weaknesses related to our objective.
- Reviewed records of the State's board minutes, independent public auditor's reports, and written HUD monitoring reviews of the State's disaster recovery program.
- Evaluated the State's allocation plan to determine whether the allocation of costs was reasonable and evaluated the State's monitoring practices and reporting process.
- Evaluated the State's rating and scoring of applications, ensuring that the State selected and evaluated subrecipients in accordance with its action plan.
- Evaluated the State's efforts to identify and prevent duplication of assistance and ineligible assistance.
- Selected a sample of 4 requisitions for the competitive grant program, (totaling \$766,474) from a universe of 33 requisitions (totaling more than \$2.3 million). The selection was based on the four largest requisitions; one for each of the four subrecipients that expended funds through the program. Because two of the four subrecipients had multiple vendors, further sampling was warranted. The total number of vendors for 2 of the subrecipients were 13 (totaling \$318,700) and 33 (totaling \$245,559), respectively. Our sample selection represented the largest three vendor payments for each of the two vendors totaling \$94,000 and \$31,930, respectively. We evaluated activities to determine whether national objectives were met, the scoring process was reasonable, the State complied with written agreements, and expenses were eligible and adequately supported.

- Selected a sample of 3 requisitions for the State directed grant program, (totaling \$480,467) from a universe of 39 requisitions (totaling more than \$2.2 million) to evaluate the State's practices and procedures. The selection was based on the three largest requisitions (totaling \$480,467); one for each of the three activities for which the vast majority of the funding was expended; namely, the buyout, housing recovery, and downtown assistance programs. We evaluated procedures regarding deed restrictions and debt to equity ratios and determined whether national objectives were met, the scoring process was reasonable, the State complied with written agreements, and expenses were eligible and adequately supported.
- Tested the procurements for demolition contracts awarded through the CDBG-DR1 program. We limited our review to the three highest payments for demolition projects. We selected a sample of 3 projects (total costs of \$228,762) to review from a universe of 10 demolition projects totaling \$982,300.
- Selected a sample of 3 administrative cost line items for the CDBG-DR1 grant, (totaling \$188,925) from a universe of 108 administrative cost line items (totaling \$460,055). The selection was made from the expenditure summary of the Vision accounting system (accounting software) and was based on the largest expenditures in each of three categories; namely, salaries, computer software services and miscellaneous administrative costs (advertising, travel, etc.). For the CDBG-DR2 grant, we selected a sample of 1 administrative cost line item (totaling \$85,072) from a universe of 32 administrative cost line items (totaling \$168,761). The sample item was the largest dollar item in the universe. We tested to determine whether costs were reasonable, eligible, and supported.

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

## INTERNAL CONTROLS

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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.

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### Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that the funds are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

## Significant Deficiencies

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

- State officials did not have adequate controls over program operations when they failed to hire a sufficient number of staff members to properly administer the State's two disaster recovery programs (see finding).
- State officials did not have adequate controls over compliance with laws and regulations when they failed to submit quarterly performance reports in a timely manner, perform adequate monitoring, follow HUD requirements regarding substantial and nonsubstantial amendments to action plans, and correct discrepancies contained in quarterly progress reports submitted by subrecipients (see finding).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use 1/
1A	\$13,232,000

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (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. By implementing our recommendation requesting an extension of the deadline for the use of \$13.2 million in CDBG-DR2 funding, the recapture of funds awarded to benefit the Vermont residents affected by natural disasters can be avoided.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



**State of Vermont**  
**Department of Housing and Community Development**  
Deane C. Davis Building – 6<sup>th</sup> Floor [phone] 802-828-3211  
One National Life Drive  
Montpelier, VT 05620-0501

*Agency of Commerce and  
Community Development*

September 19, 2014

Edgar Moore  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General for Audit  
26 Federal Plaza, Room 3430  
New York, NY 10278-0068

Dear Mr. Moore,

Please accept this correspondence as the State of Vermont's response to the draft audit report presented at the exit conference on September 15, 2014. Since January of 2012 when we first learned we would be receiving CDBG Disaster Recovery funds, the Department of Housing and Community Development (DHCD) has worked assiduously to help Vermonters and their communities recover from the devastation of Tropical Storm Irene and the other flooding of 2011. We have endeavored to make the best use of all recovery funds, ensure they are spent where they are most needed and in accord with all applicable regulations. Significantly, the report concludes that the State has expended CDBG-DR funds for eligible activities, in other words, as intended and appropriately.

We are confident that we will meet the mission of the program. We have made much progress since the audit concluded in May. As of this writing, DHCD has awarded all \$13.2 million covered by the first CDBG-DR2 Action Plan. We also have selected projects that would fully obligate (in fact, exceed) all remaining CDBG-DR2 funds. The Department has not officially made awards for these projects as we will award the remaining CDBG-DR2 funding based on the projects' ability to proceed quickly and the time needed to complete the NEPA Environmental Review and permitting processes. We are currently preparing a second action plan to obligate the remaining \$4.7 million of CDBG-DR2 funding.

The State has also made significant progress towards our goals, including those set forth on Page 6 of the report. We have now completed 90 of the anticipated 134 buyouts. The remaining buyouts are contingent upon and awaiting approval by FEMA. In most cases, the most significant item delaying a buyout is the lack of a FEMA-approved Municipal Hazard Mitigation Plan. Many of our communities have submitted updated plans, but they must be approved by FEMA before funding is released. We cannot control the timeline on





**Ref to OIG Evaluation**

**Auditee Comments**

buyouts. Nonetheless, the State continues to make steady progress and multiple disaster recovery benefits are being realized through this program.

Substantial work has been completed through our economic recovery programs. Over 50 flood-impacted businesses have received CDBG-DR1 or 2 assistance and have created or retained a total 361 jobs to-date. This program is making a difference and keeping businesses open and people employed.

We can report progress in our homeowner assistance program as well, with 25 households now receiving assistance. This program will end on December 31, 2014, and may not serve as many households as initially projected. Although we have been able help many in dire need, we overestimated the number of survivors that would be eligible for assistance under CDBG-DR program rules. Conversely, we have seen much greater needs than anticipated for municipal rebuilding and infrastructure repair projects. We will be working with our HUD Regional staff to revise the goals and timelines for these activities.

Below you will find our comments and clarifications responding to the issues and recommendations contained in the report. Specifically, the draft report states DHCD did not:

- (1) have the staffing capacity to administer its disaster recovery programs,

Despite having already added positions to assist with the administration of these programs, we agree that we do not currently have sufficient staff to fully meet our monitoring and oversight responsibilities. Given the demands on our regular CDBG program, DHCD does not have the ability to reassign other staff to work on disaster recovery. While we are confident in our overall administration of CDBG-DR 1 and 2, we agree that two additional positions are necessary to ensure full compliance on the part of the Department and our grantees as the number of funded projects grows.

**Comment 1**

- (2) submit quarterly reports in a timely manner,

We agree that we failed to submit all reports on a timely basis. However, as discussed during the exit conference, the first report was not due until December 31, 2012, which means that five reports were late, not six. We request that these facts be corrected in the report. In addition, it should be noted that all outstanding quarterly progress reports were submitted by February 5, 2014, and that all reports since then have been timely. We are committed to submitting all future reports on a timely basis.

**Comment 2**

- (3) perform adequate monitoring or oversight of funded activities,

We believe there was some misunderstanding in regard to the examples cited in connection with this determination. For example, we were in the process of following up on questions about reports submitted by the Central Vermont Community Action Council, and we communicated the status of that situation to the auditors. Because these discussions were still underway and thus the monitoring was not yet complete, we had not yet provided a monitoring letter. As regards the Brattleboro Development Credit Corporation example, we maintained the required documentation regarding our follow up on their correction of deficiencies, but were not asked to provide this documentation during the audit. However, we do agree that we do not have the capacity to ensure adequate monitoring and oversight as the number of funded projects has grown, and thus do not challenge the overall conclusion.

**Comment 3**

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 4**

(4) follow HUD requirements regarding substantial and nonsubstantial amendments to action plans, and

Now that we fully understand HUD requirements regarding amendments to action plans, we agree. We will seek further guidance from HUD and adhere to their requirements for all future amendments.

**Comment 5**

(5) correct discrepancies contained in quarterly progress reports submitted by subrecipients.

We do not agree with the determination that inaccuracies in subrecipient progress reports, or any delay in correcting such inaccuracies, were caused by a lack of staffing capacity. As discussed during the exit conference, the inconsistencies were the result of problems with entering the information in the DRGR system. We reported the problem to HUD, and were directed to work with HUD's consultant to make the corrections.

Based on the explanations above and below, the Department requests that the wording of the finding be changed to be made more accurate as follows:

**Comment 6**

~~Although the~~ The State expended funds for eligible activities; ~~however,~~ it did not always administer its Community Development Block Grant Disaster Recovery programs (CDBG-DR1 and -DR2) effectively and efficiently. Specifically, it did not (1) have the staffing capacity to administer its disaster recovery programs in accordance with all program requirements, (2) submit all quarterly performance reports in a timely manner, (3) perform adequate monitoring or oversight of funded activities, and (4) follow HUD requirements regarding substantial and nonsubstantial amendments to action plans ~~and (5) correct discrepancies contained in quarterly progress reports submitted by subrecipients.~~ This condition occurred because the State initially relied on its existing staff for oversight of CDBG-DR1 program activities and failed to hire sufficient staff to oversee both the CDBG-DR1 and -DR2 programs. As a result, there is a significant risk that the program mission will not be accomplished and that obligated CDBG-DR2 funding of \$13.2 million will not be expended by the deadline of December 10, 2015. In addition, HUD lacked assurance that the State and its subrecipients complied with laws, regulations, grant agreements, and program requirements.

While the first sentence of the finding acknowledges that the State expended funds for eligible activities, we believe it appropriate to state this more affirmatively. This sentence would better reflect our work and program accomplishments if the word "Although" didn't diminish it by appearing first.

**Comment 7**

It is true that the State initially considered relying on our existing staff for oversight of the CDBG-DR1 program. This occurred at a time when there was tremendous uncertainty about the federal budget and funding for our regular CDBG program was in serious jeopardy. It appeared that the Department may need to cut existing staff. In that situation, it was not prudent to begin hiring new staff. When we learned that our regular program would continue and received training from HUD on CDBG-DR requirements, it became clear we would need additional staff and we began to seek the necessary approvals.

**Comment 8**

We do not agree that there is a "significant" risk that the program mission will not be accomplished. The Department is making steady progress while being careful to meet program requirements. The majority of our grantees are regular partners in CDBG work and we are in regular contact with them. We think that sentence would be more accurate if it stated that there is "a risk" without the modifier "significant."

**Comment 9**

The report's recommendation is that:

"HUD require the State to determine the portion of the \$13.2 million in disaster recovery funds that it believes will not be expended by the December 10, 2015, deadline and request a waiver from HUD for an extension and hire additional grant management staff and reassign an experienced employee to work on disaster recovery programs."

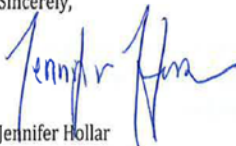
We understand that the report will be modified from the draft language to direct us to hire "two additional staff members to work on disaster recovery programs" rather than recommending we "hire additional grant management staff and reassign an experienced employee to work on disaster recovery programs." As modified, we agree with the recommendation.

At the direction of and with the full support of the Governor's Office and Agency of Administration, our Department is seeking the required legislative approval of two new limited service positions.

The two year deadline for expending CDBG-DR2 funds is extremely ambitious for disaster recovery work and not possible for some projects, despite our best efforts. There is much work to be done between project awards and completion. Factors affecting project timing include many beyond the Department's control such as FEMA approvals, the time to complete environmental reviews (six months in many cases) and Vermont's short construction season. Adding staff will ensure we can meet our monitoring and financial oversight responsibilities but will not speed the completion of most projects. We will seek guidance from HUD CPD Regional Director Robert Shumeyko on how to proceed with a waiver or project extension request.

Thank you for your consideration of our requests for clarifications in the report as well as the opportunity to ask questions during the exit conference and participate by phone. I'd also like to thank you for the thorough and thoughtful approach of your auditors, Morgan McCarthy and Dave Montella as they worked with the Department's staff and reviewed our programs. We appreciate the guidance we have received through this process and believe the implementation of these recommended measures will assure the overall success of our program and better enable us to assist our grantees and the Vermonters they serve.

Sincerely,



Jennifer Hollar  
Deputy Commissioner

- Cc: Kristen Ekmalilan, HUD Assistant Regional Inspector General for Audit  
Mark A. Horwath, HUD Headquarters Disaster Team  
Morgan McCarthy, Auditor-in-Charge, HUD Office of Inspector General  
David Montella, Auditor, HUD Office of Inspector General  
Robert Shumeyko, Director, Office of Community Planning and Development, HUD R1  
Patricia Moulton, Secretary, VT Agency of Commerce and Community Development  
Noelle MacKay, Commissioner, VT Department of Housing and Community Development  
Dale Azaria, General Counsel, VDHCD  
Ann Kroll, Director of Grants Management, VDHCD  
Josh Hanford, Director, Vermont Community Development Program, VDHCD

## OIG Evaluation of Auditee Comments

- Comment 1** Department of Housing and Community Development (State) officials agreed with OIG that additional staff are necessary to meet its monitoring and oversight responsibilities. OIG modified recommendation 1B to direct the State to develop controls that would allow for sufficient staff to be hired to ensure that the disaster recovery programs are administered effectively.
- Comment 2** State officials agreed that they failed to submit quarterly performance reports on time. They indicated that, as discussed during the exit conference, the first report was not due until December 31, 2012, which means that five reports were late, not six. As such, State officials requested that these facts be corrected in the report. In addition, they suggested that the audit report emphasize that all outstanding quarterly performance reports have since been submitted. OIG agreed and revised the report, accordingly.
- Comment 3** State officials believed that there was some misunderstanding regarding the examples cited on monitoring. They state that regarding the Central Vermont Community Action Council they informed the auditors of the status of the review and since it was not completed, they did not yet provide a monitoring letter. Regarding Brattleboro they had the required documents related to their follow-up on the monitoring deficiencies, but were not asked for this information. Officials did agree that they did not have the capacity to adequately monitor, as activities have increased. However, we disagree that there were discussions of follow up activities pertaining to the Central Vermont Community Action Council review as the only documentation OIG received from the State related to this review was the May 20, 2014 letter where they notified this subrecipient of the results of a review performed six months ago on November 7, 2013. There was no indication that State officials followed-up on the deficiencies identified. Regarding Brattleboro, we disagree because on June 2, 2014, OIG requested support for all onsite monitoring activities for disaster recovery. Based on our review of the documentation provided, there was no evidence that the State followed-up to ensure deficiencies were corrected for this agency. It should also be noted that the formal written comments did not include documentation to support the State's position on these matters. Therefore, better controls are needed to ensure that sufficient staff is hired to document the State's monitoring actions, etc.
- Comment 4** We acknowledge State official's admission that they failed to follow HUD requirements regarding amendments to action plans, and they will seek further HUD guidance to better adhere to requirements in the future.
- Comment 5** State officials emphasized that the inaccuracies in subrecipient progress reports, or any delay in correcting such inaccuracies, were not caused by a lack of staffing, but by problems entering data into HUD's Disaster Recovery Grant Reporting system. OIG did not state that the inaccuracies in quarterly progress

## OIG Evaluation of Auditee Comments

reports were specifically caused by a lack of staffing capacity. However, the State's Director of Grants Management informed OIG, during an interview conducted on February 19, 2014, that their policy is to have a grant specialist verify the accuracy of data in the progress reports submitted by subrecipients, but admitted that limited staffing hindered these efforts. We were informed that the responsibility for ensuring the accuracy of the progress reports will be assigned to a grant management specialist undergoing on the job training.

- Comment 6** State officials requested some revisions to the wording in the opening paragraph of the report. For example, while the first sentence of the report acknowledges that funds were expended for eligible activities, State officials believed that it was appropriate to state this more affirmatively to better reflect their work and program accomplishments. We concurred with the State's request for revisions to the report's opening paragraph with the exception of the matter related to the quarterly progress reports.
- Comment 7** State officials emphasized that the introduction of the CDBG-DR1 program occurred at a time when there was tremendous uncertainty about the federal budget and funding for its regular CDBG program was in serious jeopardy. As a result, the State did not believe it was prudent to hire new staff while facing potential cuts for existing staff. OIG believes any concerns regarding cuts to the regular CDBG program were unfounded. The introduction of the CDBG-DR1 program and the funding allocations for the regular CDBG program were announced almost simultaneously. HUD published funding allocations for all Community Planning and Development programs on January 18, 2012, and on January 20, 2012, the HUD Secretary announced Vermont would receive \$21.6 million in CDBG-DR1 funding.
- Comment 8** The State did not agree that there is a "significant" risk, reported in the last sentence of the report's opening paragraph, that the program mission will not be accomplished. They believed that the sentence would be more accurate if it stated that there is "a risk" without the modifier "significant." OIG concurred and removed the word "significant" from the report.
- Comment 9** State officials at the exit conference misunderstood and thought that the report would be modified from the draft language to direct the State to hire "two additional staff members to work on disaster recovery programs" rather than recommending that they "hire additional grant management staff and reassign an experienced employee to work on disaster recovery programs. However, we did adjust recommendation 1B to be less specific so that they could hire the staff that they considered to be sufficient enough to ensure that the disaster recovery programs are administered effectively".

## Appendix C

### CRITERIA

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#### **Federal Register [Docket No. FR-5628-N-01] Disaster Recovery DR-1**

Section VI(31)(B) – Each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each calendar quarter, beginning after the first full calendar quarter after grant award and continuing until all funds have been expended and all expenditures have been reported.

Section VI(1)G – In the case of Action Plan amendments, each amendment should constitute the entirety of the Action Plan, as amended. The beginning of every Action Plan amendment must include a section that identifies exactly what content is being added, deleted, or changed. This section must also include a chart or table that clearly illustrates where funds are coming from and where they are moving to. The Action Plan must include a revised budget allocation table that reflects the entirety of all funds, as amended. A grantee’s most recent version of its entire Action Plan should be able to be accessed and viewed as a single document at any given point in time, rather than the public having to view and cross-reference changes among multiple amendments.

Section VI(2)B – Grantee must notify HUD, but is not required to undertake public comment, when it makes any plan amendment that is not substantial. However, every amendment to the Action Plan (substantial and nonsubstantial) must be numbered sequentially and posted on the grantee’s Web site.

Section VI(30) – HUD expects each grantee to expeditiously obligate and expend all funds, including any recaptured funds or program income, and to carry out activities in a timely manner.

Section VI(35)(M) – Each State or unit of local government receiving a direct award certifies that it (and any subrecipient or administering entity) has the capacity to carry out disaster recovery activities in a timely manner; or the State or unit of local government will develop a plan to increase capacity where such capacity is lacking.

#### **Federal Register [Docket No. FR-5696-N-06] Disaster Recovery Grants DR-2**

Section III – To ensure timely expenditure of funds, section 904(c) under Title IX of the Appropriations Act requires that all funds be expended within two years of the date HUD obligates funds to a grantee (funds are obligated to a grantee upon HUD’s signing of the grantee’s CDBG-DR grant agreement).

#### **HUD CPD Grant Monitoring Handbook 6509.2**

Chapter 1-4 – This Handbook is for the use of all HUD CPD [Office of Community Planning and Development] field staff and program participants involved in monitoring CDBG programs.

Chapter 2-7 Section C – The “real work” of monitoring entails interviews and file reviews to verify and document compliance and performance (and can include physical inspections, if monitoring is conducted on-site).

Chapter 2-10 – Within 60 days after completion of monitoring, written correspondence must be provided to the program participant describing the results – in sufficient detail to clearly describe the areas that were covered and the basis for the conclusions.

Chapter 2-12(B)(1) - In the event that a program participant fails to meet a target date - and has not alerted the Field Office as to the reasons prior to the date (and, if appropriate and agreed-upon, established a new date) - the HUD reviewer is to follow-up either by telephone or email, with a reminder. Either form of contact must be documented.

Chapter 2-14 Section A – It is essential that each step of the monitoring process be adequately documented. Documenting preserves the valuable results, both positive and negative. All correspondence, documentation and working papers relating to the monitoring and conclusions are to be maintained in the official field office files.

### **Code of Federal Regulations**

24 CFR 85.40(a) – Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

### **Vermont’s CDBG Disaster Recovery 1 Action Plan, July 20, 2012**

Part V, General Requirements, under section entitled “Building Capacity for Implementation and Compliance” – The Agency’s Action Plan states that it will provide technical and management assistance to the grant recipients. In addition, there will be staff available to provide day-to-day ongoing technical assistance via e-mail, telephone and on-site visits, when necessary.