



The State of Maryland, Lanham, MD

Community Development Block Grant Disaster Recovery-Funded Housing Recovery Program



To: Charles E. Halm, Director, Office of Community Planning and Development,
Baltimore Field Office, 3BD
//signed//

From: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia
Region, 3AGA

Subject: The State of Maryland Could Not Show That Replacement Homes Complied
With the Green Building Standard

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 State of Maryland's Community Development Block Grant Disaster Recovery-funded Housing Recovery 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 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6730.



Audit Report Number: 2015-PH-1005

Date: September 25, 2015

The State of Maryland Could Not Show That Replacement Homes Complied With the Green Building Standard

Highlights

What We Audited and Why

We audited the State of Maryland's Community Development Block Grant Disaster Recovery-funded Housing Recovery program. We conducted the audit because the program was the largest funded program in the State's first action plan. Our objectives were to determine whether the State (1) assisted eligible applicants, (2) avoided duplicating assistance, (3) incurred eligible expenses that were properly supported, (4) procured services and products properly, and (5) constructed homes properly, in accordance with applicable U.S. Department of Housing and Urban Development (HUD) and Federal requirements.

What We Found

The State could not show that replacement homes were designed and constructed to increase energy efficiency and minimize their environmental footprint as required. Specifically, the State's subgrantee could not show that it constructed replacement homes that complied with the Green Building Standard.¹ This condition occurred because the subgrantee lacked procedures to ensure that replacement homes complied with the Green Building Standard. Also, the State lacked procedures to monitor its subgrantee's compliance with the Standard. As a result, HUD had no assurance that \$1.9 million in program funds paid to the subgrantee and \$293,000 in program funds not yet paid to the subgrantee was spent to design and construct 13 replacement homes in a manner that increased energy efficiency and minimized their environmental footprint. The subgrantee (1) assisted eligible applicants, (2) avoided duplicating assistance, (3) incurred eligible expenses that were properly supported, and (4) procured services and products properly.

What We Recommend

We recommend that HUD require the State to (1) provide documentation to show that the 13 homes, with related program costs totaling \$1.9 million, meet the Green Building Standard or repay HUD for any amount that it cannot support and (2) continue to develop and implement procedures to ensure that future replacement homes comply with the Standard, thereby ensuring that \$293,000 in program funds not yet paid to the subgrantee is put to better use.

¹ The Green Building Standard, as defined by HUD in 78 FR 14333, required all construction to meet an industry-recognized standard that emphasizes high quality, durability, energy efficiency, a healthy indoor environment, sustainability and water or mold resistance.

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Background and Objectives

On October 28, 2012, Hurricane Sandy moved up the eastern seaboard of the United States. The effects of the storm were felt for several days throughout the State of Maryland as the storm produced heavy rains, high winds, and snow. Significant coastal flooding occurred along the Chesapeake Bay. While every county suffered some level of damage from the storm, the U.S. Department of Housing and Urban Development (HUD) identified Somerset County as the State's most impacted area.

Through the Disaster Relief Appropriations Act of 2013,² Congress made available \$16 billion in Community Development Block Grant funds for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization. In accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974, these disaster relief funds were to be used in the most impacted and distressed areas affected by Hurricane Sandy and other declared major disaster events that occurred during calendar years 2011, 2012, and 2013. HUD awarded the State \$28.6 million of these funds. The State submitted two action plans to HUD for the \$28.6 million, and HUD approved them on July 25, 2013 (\$8.6 million), and May 23, 2014 (\$20 million). The action plans identified the proposed uses of the funds, including criteria for eligibility, and how the uses address long-term recovery needs.

As of January 2015, the State had obligated \$13.1 million of its \$28.6 million grant by entering into three grant agreements with HUD on December 12, 2013 (\$4.4 million), July 3, 2014 (\$7.6 million), and December 3, 2014 (\$1.1 million). The State allocated \$4.6 million³ of the \$13.1 million to its Housing Recovery program. The Disaster Relief Act required the State to spend obligated funds within 2 years of the date of obligation.

The State established the Housing Recovery program to improve the housing stock by repairing homes that were damaged by Hurricane Sandy. The program was designed to ensure that all rehabilitated homes were made safer, more resilient, and better able to withstand future flooding events. The program consisted of two activities: housing rehabilitation and housing replacement. According to the State's action plan, an assessment of each home would determine the level of damage and which program activity was suitable. Applicants were considered for housing rehabilitation if the cost of damage to the home was 49 percent or less of the current assessed value of the home. Applicants were considered for housing replacement if the cost of the damage to the home was 50 percent or more of the current assessed value of the home. The State did not establish a maximum amount of housing assistance that could be provided to each eligible applicant.

² Public Law 113-2, dated January 29, 2013

³ The \$4.6 million equals \$3.1 million from the December 2013 grant agreement, \$500,000 from the July 2014 grant agreement, and \$1 million from the December 2014 grant agreement.

Key program requirements for applicants included that they

- Have a total household income at or below 80 percent of the area median income,
- Provide information to ensure that there is no duplication of benefits,
- Be current on mortgage payments and property taxes,
- Have clear title to the property with no liens other than a first mortgage,
- Maintain homeowners and flood insurance, and
- Accept assistance as a deferred loan payable upon sale or transfer of the property.

Other key program requirements included that

- Homes be owner occupied,
- Homes located in the floodplain or along a body of water⁴ be elevated, and
- Replacement homes be constructed to comply with the Green Building Standard.

The State's Department of Housing and Community Development was the responsible entity for administering its Community Development Block Grant Disaster Recovery grant. On October 28, 2013, the State entered into a grant agreement with Somerset County (subgrantee) for it to carry out activities under the program. The grant agreement required the subgrantee to follow the program requirements included in the State's action plan.

As of June 2015, the State had drawn down approximately \$3.4 million from its grant, of which \$2.6 million was drawn to pay the subgrantee for costs associated with carrying out activities under the Housing Recovery program. The subgrantee assisted 14 applicants. One received home rehabilitation assistance, and 13 received home replacement assistance.

Our objectives were to determine whether the State (1) assisted eligible applicants, (2) avoided duplicating assistance, (3) incurred eligible expenses that were properly supported, (4) procured services and products properly, and (5) constructed homes properly, in accordance with applicable HUD and Federal requirements.

⁴ The State's action plan defined a body of water as a bay, river, creek, or marsh.

Results of Audit

Finding: The State Could Not Show That Replacement Homes Complied With the Green Building Standard

The State did not ensure that its subgrantee complied with the Green Building Standard in accordance with HUD requirements. Specifically, the subgrantee lacked documentation to show that replacement homes met the Standard as defined by HUD. This condition occurred because the subgrantee lacked procedures to ensure that replacement homes complied with the Standard. The State also lacked monitoring procedures to ensure that replacement homes complied with the Standard. As a result, HUD had no assurance that \$1.9 million in program funds was spent to design and construct 13 replacement homes in a manner that increased energy efficiency and minimized their environmental footprint. HUD also had no assurance that \$293,000 in program funds not yet paid to the subgrantee for costs associated with the homes would increase the homes' energy efficiency and minimize their environmental footprint. Additionally, the subgrantee assisted eligible applicants, avoided duplicating assistance, incurred eligible expenses that were properly supported, and procured services and products properly.

The State's Subgrantee Lacked Documentation To Show That Replacement Homes Met the Green Building Standard

Contrary to requirements in HUD's Federal Register notice,⁵ the State's subgrantee did not ensure that replacement homes met the Green Building Standard. The notice required the State's subgrantee to meet the Green Building Standard for the replacement and new construction of residential housing. The Green Building Standard, as defined in the notice, required all construction to meet an industry-recognized standard that had achieved certification under at least one of the following programs:

- ENERGY STAR,
- Enterprise Green Communities,
- Leadership in Energy and Environmental Design,
- International Code Council (ICC)-700 National Green Building Standard,
- The Environmental Protection Agency's Indoor AirPlus, or
- Any other equivalent comprehensive green building program.

To satisfy the requirement, the State's subgrantee indicated in its request for proposals that contractors were to construct replacement homes in accordance with the ICC-700 National Green Building Standard. To comply with the standard, buildings should be designed, constructed, and operated with a goal of minimizing their environmental footprint. The benefit of the standard

⁵ 78 FR 14333, dated March 5, 2013

includes lower monthly utility bills, greater comfort, reduced maintenance, and increased value. Although the subgrantee's request for proposals indicated that replacement homes were to be constructed in accordance with the ICC-700 National Green Building Standard, it could not provide documentation to show that replacement homes were constructed in accordance with the Standard.

This condition occurred because the subgrantee lacked procedures to ensure that replacement homes complied with the Green Building Standard. The State also lacked monitoring procedures to ensure that its subgrantee complied with the Standard. Although the State monitored the subgrantee's activities, it did not monitor construction activities related to the Green Building Standard. As a result, HUD had no assurance that \$1.9 million in program funds was spent to design and construct 13 replacement homes in a manner that increased energy efficiency and minimized their environmental footprint. HUD also had no assurance that \$293,000 in program funds not yet paid to the subgrantee for costs associated with the homes would increase the homes' energy efficiency and minimize their environmental footprint.

After we notified the State of this problem, it began taking steps to ensure that replacement homes complied with the Green Building Standard. It drafted a checklist for its subgrantee to use to document compliance with the Standard for all of its replacement homes. The State also informed us that it would instruct its subgrantee to inspect the replacement homes and review supporting invoices and bid documentation to determine whether they met the ICC-700 National Green Building Standard.

The State's Subgrantee Complied With Other Key requirements

The subgrantee maintained documentation to show that it complied with requirements to assist eligible applicants, avoid duplicating assistance, incur eligible and supported expenses, and procure services and products properly.

Conclusion

The State did not ensure that replacement homes complied with the Green Building Standard in accordance with HUD requirements. This condition occurred because the subgrantee lacked procedures to ensure that replacement homes complied with the Standard. The State also lacked monitoring procedures to ensure that its subgrantee complied with the Standard. As a result, HUD had no assurance that \$1.9 million in program funds paid to the subgrantee and \$293,000 in program funds not yet paid to the subgrantee was spent to design and construct 13 replacement homes in a manner that increased energy efficiency and minimized their environmental footprint.

Recommendations

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

- 1A. Provide documentation to show that the 13 homes, with related program costs totaling \$1,928,646, meet the Green Building Standard or repay HUD from non-Federal funds for any amount that it cannot support.

- 1B. Continue to develop and implement procedures to ensure that future replacement homes are constructed in compliance with the Green Building Standard, thereby ensuring that program funds not yet paid to the subgrantee for the 13 homes, with related program costs totaling \$292,910, are put to better use.

Scope and Methodology

We conducted the audit from January through August 2015 at the State's offices located at 7800 Harkins Road, Lanham, MD, and formerly located at 100 Community Place, Crownsville, MD; Somerset County's office located at 11916 Somerset Avenue, Princess Anne, MD; and our offices located in Baltimore, MD, and Richmond, VA. The audit covered the period March 2013 through December 2014 but was expanded when necessary.

To accomplish our objectives, we reviewed

- Relevant background information;
- Applicable regulations, HUD notices, and the State's policies and procedures;
- The Disaster Relief Appropriations Act, Public Law 113-2;
- The State's Block Grant Disaster Recovery action plan as approved by HUD on July 25, 2013;
- The funding agreements between HUD and the State, dated December 12, 2013;
- The subgrantee agreement between the State and Somerset County, dated October 28, 2013;
- Somerset County's policies and procedures manual for its Housing Recovery program;
- The State's report of its monitoring of Somerset County, dated July 15, 2014; and
- HUD's report of its monitoring of the State's disaster recovery program, dated July 16, 2014.

We interviewed responsible State employees, Somerset County staff members, and HUD officials located in Baltimore, MD.

To achieve our audit objectives, we relied in part on the State's and its subgrantee's computer-processed data. We used the data to select a sample of disbursements to review. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

As of January 2015, the beginning of the audit, the State had submitted eight vouchers valued at \$1.3 million to HUD for payment. We selected for review the four vouchers with the highest dollar amounts. The value of the 4 vouchers, containing 54 invoices, was \$1.1 million (about 85 percent of the total disbursed). We reviewed the disbursements to determine whether they were eligible and supported by adequate documentation. The program funds totaling \$1.3 million were used to assist 14 applicants. We reviewed the files for all 14 applicants to determine whether they met eligibility requirements and whether applicants received a duplication of benefits. In addition, we reviewed procurement files for all 14 contracts awarded under the program. We reviewed the files to determine whether the subgrantee followed the State's procurement policies and procedures.

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 objectives.

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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resources used are 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:

- The State did not establish and implement procedures to ensure that replacement homes complied with the Green Building Standard.

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A	\$1,928,646	
1B		\$292,910

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 2/ 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. In this instance, if the State implements our recommendation, it will ensure that the replacement homes are completed in a manner that complies with the Green Building Standard, thereby putting more than \$292,910 in program funds to better use.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



August 28, 2015

LARRY HOGAN
Governor
BOYD K. RUTHERFORD
Lt. Governor
KENNETH C. HOLT
Secretary

David Kasperowicz
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
100 Penn Square East, Suite 10205
Philadelphia, PA 19107-3380

RE: Audit Report
Community Development Block Grant Disaster Recovery

Dear Mr. Kasperowicz:

Thank you for the opportunity to review the draft audit report that was prepared by your staff for the Maryland Community Development Block Grant Disaster Recovery Program (CDBG-DR). We appreciate the time and effort undertaken by your staff to complete their review. The Maryland Department of Housing and Community Development (DHCD) takes seriously its role in being a steward of state and federal resources.

The report contained one finding related to the absence of file documentation that certain houses using CDBG-DR resources were not built in accordance to ICC-700 National Green Building Standards. Your report, however, does acknowledge that the construction work for these houses was bid with the requirement that houses be built in accordance with the required Green Building Standards. Therefore, the objective of this requirement – green homes – was met and should have been acknowledged in the IG's report.

In addition, we have already implemented documentation updates to resolve the finding. Per discussions with your staff and with Community Planning and Development (CPD) staff at the HUD Baltimore Field Office, DHCD staff developed a checklist to be used by our subgrantee, Somerset County, to document the compliance of each house with the required green building standards. The documentation is underway for each house and will soon be completed. Completed checklists and related information will be forwarded to CPD staff. This corrective action that is in progress should also have been emphasized in the report.



OFFICE OF THE SECRETARY
MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
7800 HARKINS ROAD, LANHAM, MD 20706
301-429-7461, TOLL-FREE 800-756-0119, FAX 240-334-4732



Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

David Kasperowicz
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August 28, 2015

While disappointed that the report did not highlight the overall strong level of DHCD's program compliance with CDBG-DR's extensive regulations, we are moving swiftly to resolve this relatively minor documentation issue. If you have any questions, please contact me or Cindy Stone, Director, Office of Community Programs, at 301-429-7519 or by email at cindy.stone@maryland.gov.

Sincerely,



Kenneth C. Holt
Secretary

cc: Cindy Stone, Director, Office of Community Programs, DHCD

KCH/cg

OIG Evaluation of Auditee Comments

- Comment 1** The State contended that the objective of the Green Building Standard was met since the bids for the construction work for the homes contained a requirement that the homes were to be built in accordance with the Green Building Standard. We acknowledged the bid requirement in the audit report; however, we found that the State's subgrantee lacked documentation to show that replacement homes met the Green Building Standard. 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.
- Comment 2** The State contended that we did not emphasize the corrective action it took to address the finding. However, as stated in the report, we acknowledged that the State began taking corrective action after we notified it of the problem. Specifically, we acknowledged that it drafted a checklist for its subgrantee to use to document compliance with the Green Building Standard for all of its replacement homes and that it would instruct its subgrantee to inspect the replacement homes and review supporting invoices and bid documentation to determine whether they met the ICC-700 National Green Building Standard. Since the corrective action was not completed during the audit, we did not evaluate it or verify that it was completed. Therefore, as part of the normal audit resolution process, HUD will verify the State's corrective action and determine whether it was adequate to satisfy the intent of the recommendation.
- Comment 3** The State expressed disappointment that the report did not highlight its compliance with HUD's extensive disaster recovery regulations. It also stated that it was moving swiftly to resolve this relatively minor documentation issue. As stated in the audit report, our objectives were to determine whether the State (1) assisted eligible applicants, (2) avoided duplicating assistance, (3) incurred eligible expenses that were properly supported, (4) procured services and products properly, and (5) constructed homes properly, in accordance with applicable U.S. Department of Housing and Urban Development (HUD) and Federal requirements. As a result of our work to answer the audit objectives, the only finding addressed in the report was that the State's subgrantee could not provide documentation to show that replacement homes complied with the Green Building Standard. However, we added statements in the report to show that the subgrantee (1) assisted eligible applicants, (2) avoided duplicating assistance, (3) incurred eligible expenses that were properly supported, and (4) procured services and products properly. The State categorized the finding as a relatively minor documentation issue. However, it is a serious issue because HUD had no assurance that \$1.9 million in program funds paid to the subgrantee and \$293,000

in program funds not yet paid to the subgrantee was spent to design and construct 13 replacement homes in a manner that increased energy efficiency and minimized their environmental footprint as required. If the State cannot show that the homes meet the Green Building Standard, it will have to repay HUD from non-Federal funds for any amount that it cannot support.