State of Indiana

Community Development Block Grant Disaster Recovery Program

Office of Audit, Region 5
Chicago, IL

Audit Report Number: 2016-CH-1003
June 30, 2016

To: John J. Dorgan, Director of Community Planning and Development, 5HD

//signed//
From: Kelly Anderson, Regional Inspector General for Audit, 5AGA

Subject: The State of Indiana's Administrator Lacked Adequate Controls Over the State's Community Development Block Grant Disaster Recovery Program Income and Posting of Quarterly Performance Reports

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 Indiana's Community Development Block Grant Disaster 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 312-353-7832.

Audit Report Number: 2016-CH-1003
Date: June 30, 2016

The State of Indiana's Administrator Lacked Adequate Controls Over the State's Community Development Block Grant Disaster Recovery Program Income and Posting of Quarterly Performance Reports

Highlights

What We Audited and Why

We audited the State of Indiana's Community Development Block Grant Disaster Recovery program. The audit was part of the activities in our fiscal year 2015 annual audit plan. We selected the State because it received the most program funds under the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009 in Region 5's[1] jurisdiction. Our objectives were to determine whether the State's Office of Community and Rural Affairs ensured compliance with the Federal Register regarding the (1) use and reporting of the State's program income and (2) posting of the State's quarterly performance reports to its official Web site.

What We Found

The Office of Community and Rural Affairs did not always ensure that the Indiana Housing and Community Development Authority complied with the Federal Register in its use and reporting of program income. More than $28.7 million in program funds were inappropriately drawn down from the U.S. Department of the Treasury to reimburse the Authority for program income that it used or when the Authority had available program income. Further, the Authority did not report program income in the U.S. Department of Housing and Urban Development's (HUD) Disaster Recovery Grant Reporting system in a timely manner. As a result, (1) the U.S. Treasury paid nearly $373,000 in unnecessary interest on the program funds and (2) HUD and the State lacked assurance regarding the amount of program income available to the Authority.

The Office did not always comply with the Federal Register in posting the State's quarterly performance reports for the program. It posted the State's reports for the program for the third and fourth quarters of 2014 to its official Web site more than 33 days after the end of each quarter. As a result, the public did not have timely access to the State's reports for the program.

What We Recommend

We recommend that the Director of HUD's Indianapolis Office of Community Planning and Development require the State to (1) reimburse HUD, for transmission to the U.S. Treasury, from non-Federal funds; (2) reduce program income in HUD's system; and (3) implement adequate procedures and controls to address the findings cited in this audit report.

[1] Region 5 includes the States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

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Background and Objectives

Community Development Block Grant Disaster Recovery funds were authorized under the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009 for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure, housing, and economic revitalization in areas affected by hurricanes, floods, and other natural disasters occurring during 2008 for which the President declared a major disaster under Title IV of the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974. The funds were to be used for activities authorized under Title I of the Housing and Community Development Act of 1974 as amended. The U.S. Department of Housing and Urban Development (HUD) allocated more than $372.5 million in State Block Grant Disaster Recovery funds to the State of Indiana.

The State's Office of Community and Rural Affairs administers the State's program. The Office was created in 2006 by the Indiana General Assembly as part of the Office of the Lieutenant Governor. Its mission is to promote community prosperity to strengthen the State's economy by providing capacity-building solutions to ensure ready, marketable, and competitive communities for economic growth. The Office of Community and Rural Affairs' program records are located at 1 North Capitol Avenue, Indianapolis, IN. On July 6, 2009, the Office entered into a professional services contract with the Indiana Housing and Community Development Authority to provide grants for housing activities.

The Authority was created in 1978 by the Indiana General Assembly and is a quasi-public financially self-sufficient statewide government agency. It is governed by a seven-member board of directors consisting of the State's lieutenant governor, the State's treasurer, and the Indiana Finance Authority's public finance director. The board includes four other members appointed to 4-year terms by the State's governor. Its mission is for every resident of the State to have the opportunity to live in safe, affordable, good-quality housing in economically stable communities. The Authority's program records are located at 30 South Meridian Street, Indianapolis, IN. The Authority's activities generated nearly $15.7 million in program income from November 2011 through April 2015. The Office allowed the Authority to retain the program income.

Our objectives were to determine whether the Office ensured compliance with the Federal Register regarding the (1) use and reporting of the State's program income and (2) posting of the State's quarterly performance reports to its official Web site.

Results of Audit

Finding 1: The Office Did Not Always Ensure That the Authority Appropriately Used and Reported Program Income

The Office of Community and Rural Affairs did not always ensure that the Authority complied with the Federal Register[2] in its use and reporting of program income. The Office of the Lieutenant Governor[3] inappropriately drew down more than $28.7 million in program funds from the U.S. Department of the Treasury from December 2011 through January 2015 to reimburse the Authority for program income that it used or when the Authority had available program income. Further, the Authority did not report program income in HUD's Disaster Recovery Grant Reporting system[4] in a timely manner. These weaknesses occurred because the Office of Community and Rural Affairs and the Authority lacked adequate procedures and controls to ensure that the Authority used and reported program income in accordance with the Federal Register. As a result, (1) the U.S. Treasury paid nearly $373,000 in unnecessary interest on the program funds inappropriately drawn down from the U.S. Treasury and (2) HUD and the State lacked assurance regarding the amount of program income available to the Authority.

Program Funds Were Inappropriately Drawn Down

Contrary to the Federal Register, the Office of Community and Rural Affairs did not ensure that the Authority always properly used income generated from the State's program. The Office of the Lieutenant Governor inappropriately made 650 drawdowns from the U.S. Treasury from December 2011 through January 2015 to reimburse the Authority for program income that it used or when the Authority had available program income. The drawdowns totaled more than $28.7 million in program funds.[5] The

The U.S. Treasury paid nearly $373,000 in unnecessary interest on the program funds inappropriately drawn down.

[2] See appendix C of this audit report.
[3] Staff from the Office of the Lieutenant Governor processed drawdowns of program funds for the Office of Community and Rural Affairs.
[4] HUD's system is the drawdown and reporting system for the program.
[5] Through a July 2013 monitoring review of the State's program, HUD's Indianapolis Office of Community Planning and Development identified that the Office of Community and Rural Affairs did not ensure that the Authority receipted and used program income generated from the Authority's housing activities before program funds were drawn down from the U.S. Treasury. In September 2013, the Director of HUD's Indianapolis Office of Community Planning and Development informed the Office that the Authority was required to disburse the accrued program income before additional program funds were drawn down from the U.S. Treasury. However, more than $9.5 million of the more than $28.7 million in program funds inappropriately drawn down occurred after September 2013. Further, the Office of the Lieutenant Governor inappropriately drew down more than $126,000 after the start of our audit in December 2014. As of April 2015, the Authority had disbursed nearly all of its available program income.

Authority generally disbursed program income and then requested program funds from the Office of the Lieutenant Governor to cover the disbursements. The Office of the Lieutenant Governor's controller and assistant controller would approve the requests and draw down the funds for reimbursement to the Authority for the program income that it had disbursed.

Program Income Was Not Reported in a Timely Manner

The Office of Community and Rural Affairs did not ensure that the Authority accurately reported program income in HUD's system in accordance with the Federal Register. Although the Authority received more than $6 million in program income through August 2013, it reported only more than $249,000 through September 2013. Further, it reported nearly $17.1 million in program income through June 2014 although it had received only nearly $12.2 million in program income. The Authority then reduced the amount of program income that it received to more than $12.8 million through December 2014. However, it received nearly $15.6 million in program income through December 2014. In addition, the Authority reported more than $15.9 million in program income through March 2015, although it had received only nearly $15.7 million (more than $293,000 in overreported program income).

The Office and the Authority Lacked Adequate Procedures and Controls

The weaknesses described above occurred because the Office of Community and Rural Affairs and the Authority lacked adequate procedures and controls to ensure that the Authority used and reported program income in accordance with the Federal Register. The Authority's program accountant manager said that the Authority initially had difficulties in reporting program income in HUD's system. The Authority's deputy counsel stated that after HUD's Indianapolis Office of Community Planning and Development's July 2013 monitoring review, the Authority obligated the program income to four activities. However, the activities did not progress as expected, and not much of the program income was disbursed. During the second quarter of 2014, the Authority obligated program income to many activities in HUD's system. However, some activities did not have program income obligated to them in HUD's system, and program funds were drawn down for those activities.

The Office of the Lieutenant Governor's controller said that she was aware that HUD ordered the Authority to disburse its program income before requesting program funds to cover prior disbursements. However, she said that she was not informed of the Authority's program income balance and believed it was the Authority's responsibility to inform her of its program income balance before it submitted the requests for payment to her. The Office of Community and Rural Affairs' former state CDBG [Block Grant] director said that the Office conducted a monitoring review of the Authority's program activities during 2011 and relied on the results of HUD's July 2013 monitoring review. The Office did not monitor the Authority annually due to a staffing shortage.

Conclusion

The Office of Community and Rural Affairs and the Authority lacked adequate procedures and controls to ensure that the Authority used and reported program income in accordance with the Federal Register. As a result, (1) the U.S. Treasury paid $372,783 in unnecessary interest on the more than $28.7 million in program funds that the Office of the Lieutenant Governor inappropriately drew down from the U.S. Treasury and (2) HUD and the State lacked assurance regarding the amount of program income available to the Authority.

Recommendations

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

1A. Reimburse HUD, for transmission to the U.S. Treasury, $372,783 from non-Federal funds for the unnecessary interest the U.S. Treasury paid on the program funds that the Office of the Lieutenant Governor drew down from the U.S. Treasury to reimburse the Authority for program income that it used or when the Authority had available program income.

1B. Reduce program income in HUD's system by more than $293,000.

1C. Implement adequate procedures and controls to ensure that the Authority (1) uses available program income for eligible activities before the Office of the Lieutenant Governor draws down program funds from the U.S. Treasury and (2) accurately reports program income in HUD's system.

Finding 2: The Office Did Not Always Post the State's Quarterly Performance Reports for the Program in a Timely Manner

The Office of Community and Rural Affairs did not always comply with the Federal Register[6] in posting the State's quarterly performance reports for the program. It posted the State's reports for the program for the third and fourth quarters of 2014 to its official Web site more than 33 days after the end of each quarter. This weakness occurred because the Office lacked adequate procedures and controls to ensure that it reported the State's program accomplishments on its Web site in a timely manner and in accordance with the Federal Register. As a result, the public did not have timely access to the State's reports for the program.

Quarterly Performance Reports Were Not Posted in a Timely Manner

We reviewed the Office's posting of the State's quarterly performance reports for the program for the third quarter of 2014 through the first quarter of 2015 to its official Web site.

Contrary to the Federal Register, the Office did not always post the State's quarterly performance reports for the program to its Web site in a timely manner. It posted the State's reports for the third and fourth quarters of 2014 to its official Web site more than 33 days after the end of each quarter. The following table shows the quarter for the reports, the date by which the Office was required to post the reports, the date on which the Office posted the reports, and the number of days late the reports were posted.

Quarterly performance report	Required posting date	Date posted	Days late
Third quarter of 2014	Nov. 2, 2014	Dec. 12, 2014	40
Fourth quarter of 2014	Feb. 2, 2015	Apr. 14, 2015	71

The Office posted the State's report for the program for the first quarter of 2015 to its official Web site in a timely manner. However, it posted the report under the incorrect grant for the program.[7]

The Office Lacked Adequate Procedures and Controls

The weakness described above occurred because the Office lacked adequate procedures and controls to ensure that it reported the State's program accomplishments on its official Web site in a timely manner and in accordance with the Federal Register. The Office did not have written policies and procedures for posting the State's quarterly performance reports to its official Web site. The Office's former state CDBG [Block Grant] director said that since July 2014, she had instructed staff from other departments of the Office of the Lieutenant Governor to post the

[6] See appendix C of this audit report.
[7] HUD entered into two grants with the State for program funds.

State’s reports to the Office’s Web site. However, she did not always instruct the staff to post the State’s reports within 3 days from the time the reports were submitted to HUD. Further, she did not check the Office’s Web site to ensure that the reports had been posted. She is drafting written policies and procedures for posting the reports to the Office’s Web site.

Conclusion

The Office lacked adequate procedures and controls to ensure that it reported the State’s program accomplishments on its Web site in a timely manner and in accordance with the Federal Register. As a result, the public did not have timely access to the State’s quarterly performance reports for the program.

Recommendations

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

2A. Implement adequate procedures and controls to ensure that the Office accurately posts the State’s quarterly performance reports for the program to its official Web site no later than 33 days following the end of each quarter.

Scope and Methodology

We performed our onsite audit work from December 2014 through June 2015 at the Office of Community and Rural Affairs' offices located at 1 North Capitol Avenue, Indianapolis, IN, and the Authority's offices located at 30 South Meridian Street, Indianapolis, IN. The audit covered the period May 2009 through November 2014 and was expanded as necessary.

To accomplish our objectives, we reviewed

- Applicable laws; regulations at 24 CFR (Code of Federal Regulations) Parts 85 and 570; the Federal Register, dated February 13 and August 14, 2009; HUD's Office of Block Grant Assistance's manual, "Basically CDBG [Block Grant] for States", dated July 2014; grant agreements with the State for program funds, dated April 13, 2009, February 2, 2010, and February 21, 2011; and HUD's Indianapolis Office of Community Planning and Development's 2013 monitoring review.
- The State's action plan for program funds; amendment to the State's action plan for program funds, dated February 2014; single audit reports for 2009 through 2011; comprehensive annual financial reports for 2012 and 2013; and program data from HUD's system and the Office of Community and Rural Affairs' Web site.
- The Office of Community and Rural Affairs' professional services contract with the Authority, policies and procedures, and financial records.
- The Authority's financial statements and independent auditors' reports for 2008 through 2012, policies and procedures, financial records, and organizational chart.

In addition, we interviewed the Office of Community and Rural Affairs', the Authority's, and the Office of the Lieutenant Governor's employees and HUD's staff.

Finding 1

We reviewed nearly $15.7 million in program income that the Authority received from November 2011 through April 2015. We were conservative in our determination of the amount of unnecessary interest that the U.S. Treasury paid. We based our calculation on the 10-year U.S. Treasury rate, using simple interest on the Authority's daily balance of program income. Further, we did not include in the Authority's daily balance of program income any program income received during a month until the first day of the following month.

Finding 2

We reviewed the Office of Community and Rural Affairs' posting of the State's quarterly performance reports for the program for the third quarter of 2014 through the first quarter of 2015 to its official Web site.

We relied in part on the data from HUD's system. Although we did not perform a detailed assessment of the reliability of the data, we performed minimal levels of testing and found the data to be adequately reliable for our purposes. However, we did not completely rely on data from the Authority's Great Plains accounting system. We performed a detailed assessment of the reliability of the data and found that the data regarding program income received was not adequately reliable for our purposes.

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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – 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 resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

The Office of Community and Rural Affairs and the Authority lacked adequate procedures and controls to ensure that

- The Authority used and reported program income in accordance with the Federal Register (finding 1).

- The Office reported the State’s program accomplishments to its Web site in a timely manner and in accordance with the Federal Register (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/
1A	$372,783
Totals	**$372,783**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

INDIANA OFFICE OF
Community & Rural Affairs
Where Rural Matters

July 20, 2015

Kelly Anderson
Regional Inspector General for Audit, Region 5
United States Department of HUD-Office of Inspector General
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Room 2201
Chicago, Illinois 60604-3507

Re: Discussion Draft Audit Report on OIG's Audit of State of Indiana's Community Development Block Grant Disaster Recovery program ("CDBG-D").

Dear Ms. Anderson:

The Indiana Office of Community and Rural Affairs ("OCRA", "Office" or "we") is in receipt of the discussion draft audit report by HUD's Office of Inspector General ("OIG" or "you") of the State of Indiana's CDBG-D program dated July 9, 2015. The Indiana Housing and Community Development Authority ("IHCDA" or "Authority") is under contract with OCRA to provide awards for housing activities through the CDBG-D program. As the State of Indiana's administrator of CDBG-D program ("Program") funds, OCRA has carefully reviewed the discussion draft audit report, and welcomes the opportunity to provide comment. Please consider this letter to be our official response.

Per your request, our comments will indicate our agreement or disagreement with each specific finding contained in the discussion draft audit report. We will also provide an explanation supporting why we agree or disagree with these findings. Also per your request, you will find these comments address each recommendation and state how it will be implemented, why it is not necessary, or present an alternative action and show how the alternative action will correct the problem which the recommendation was designed to fix.

We begin our response with OIG's Finding 1.

OIG Finding 1: The Office Did Not Always Ensure That the Authority Appropriately Used and Reported Program Income

OCRA Response to Finding 1: AGREE

OCRA acknowledges that the Authority did not always properly report Program Income ("PI") during the period audited. OCRA also acknowledges that, during the period audited, the Authority drew down Program Funds ("PF") when the Authority had PI funds available. We will give some background into how this occurred.

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www.ocra.IN.gov

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Comment 1

PI started coming into the Authority in November of 2011. These funds were the result of paybacks of principal and interest from housing development loans financed with CDBG-D.[1] The repayment funds started coming in at a rate that was unanticipated by the Authority, and at the time, the Authority's systems were not prepared to receive, deposit, document and apply the volume of PI received. The result was that the funds began to accumulate as they were being deposited but not properly receipted (recorded in DRGR) or allocated.

Comment 2

The main reason for funds not being documented in the DRGR system at the time the Authority began to initially receive PI was system-wide problems with DRGR during December of 2011 after Release 7.3. These problems caused HUD to issue an emergency release the weekend of January 1, 2012. The Authority was not able to draw PI in the system and HUD apologized for the lack in help desk support by admitting that their CPD IT help desk did not have sufficient staff with DRGR training. Once the system-wide DRGR problem was resolved, the Authority realized that there was a problem with the way the activities and projects were created in the system. Over time, the projects and activities were revised and structured correctly in DRGR.

Comment 3

While the Authority disbursed some of the PI during this period, the Authority was not able to disburse the PI at a rate which offset the amount of PI which the Authority continued to receive. To address this, in November of 2013, the Authority identified four (4) awards totaling $6,665,549. Claims under these awards would be sufficient to offset the PI received by the Authority, and the Authority planned to allocate PI to these awards as it received claims. However, over the next few months the awardees failed to draw down their funds as fast as originally anticipated. This delay by awardees in drawing down the allocated PI funds, along with the Authority's receipt of an additional $5.5 million in PI in January of 2014, made the process of disbursing the PI more gradual than the Authority would have preferred.

Over time, through proper allocation of PI to properly supported claims, the Authority reduced the PI to virtually zero. And while there were PF drawn down when there was PI available, it should be noted that in this Audit there are no findings of unsupported claims, inappropriate disbursements, inappropriate awards or malicious intent. The mishandling of the program income over this period had no negative impact on the applicants of these funds and no negative impact on the ultimate recipients of the services these funds provided. All funds went to the correct awardees for the correct projects.

OIG Recommendations 1

The discussion draft presents three (3) recommendations to HUD's Indianapolis Office of Community Planning and Development ("CPD") as a result of Finding 1, and, per your direction, we will respond to each individually.

[1] The Authority had structured its initial allocation of CDBG-D as loans, rather than grants, to recycle the federal funds and allow the Authority to provide the benefit of the CDBG-D funds to future generations of awardees.

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Recommendation 1A: Reimburse HUD, for transmission to the U.S. Treasury, $372,783 from non-Federal funds for the unnecessary interest the U.S. Treasury paid on the program funds that the Office of the Lieutenant Governor drew down from the U.S. Treasury to reimburse the Authority for program income that it used or when the Authority had available program income.

Comment 4

Response to 1A: OCRA will ensure that HUD is reimbursed, for transmission to the U.S. Treasury, the sum of $372,783 from non-Federal funds for the unnecessary interest the U.S. Treasury paid on the program funds drawn when the Authority had available program income. The funds used for this reimbursement will have no effect on Indiana taxpayers as they will be drawn from other independent sources.

Recommendation 1B: Reduce program income in HUD's system by more than $293,000.

Comment 5

Response to 1B: The Authority will verify the source of this apparent $293,000 overage of program income in HUD's system and reduce it accordingly pursuant to applicable policies and procedures.

Recommendation 1C: Implement adequate procedures and controls to ensure that the Authority (1) uses available program income for eligible activities before the Office of the Lieutenant Governor draws down program funds from the U.S. Treasury and (2) accurately reports program income in HUD's system.

Comment 6

Response to 1C: (1) Nearly all of the Authority's program income has been disbursed. The Authority now has written procedures and controls in place where a monthly report is sent to OCRA which details all program income received, disbursed and remaining during the period. (2) On March 1, 2015, the Authority implemented new written procedures and controls for receipting CDBG-D program income in DRGR and drawing program income. These procedures outline the coordinated efforts between the Authority's Accounting and Funds Management divisions to ensure that program income is properly received, deposited, documented in DRGR and applied to appropriate activities.

Comment 6

OCRA will monitor the Authority to ensure it makes every effort to obligate and expend all program income received in accordance with the regulations on 24 CFR 570.489 and 24 CFR 570.504. OCRA will suspend draws in DRGR when program income has been received by IHCDA and not obligated to an eligible activity in a timely manner. (The new Program Income Policy and Procedures Manual is attached)

We move now to OIG Finding 2.

OIG Finding 2: The Office Did Not Always Post the State's Quarterly Performance Reports for the Program in a Timely Manner

Ref to OIG Evaluation

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IHCDA Response to Finding 2: AGREE.

OIG Recommendation 2

The discussion draft presents one (1) recommendation to CPD as a result of Finding 2, and we will respond to it.

Recommendation 2A: Implement adequate procedures and controls to ensure that the Office accurately posts the State's quarterly performance reports for the program to its official Web site no later than 33 days following the end of each quarter.

Comment 7

Response to 2A: Not posting the quarterly report to the website in a timely manner was an oversight and resulted from a change in the personnel responsible for submitting and posting the report. The posting requirement will be added to the policies and procedures for completing the action plan and quarterly reports as a distinct step in the process; providing guidance to the staff responsible for reporting.

If you have any additional questions, contact Kathleen Weissenberger, State CDBG Program Director, at 317-232-1703.

Sincerely,

Bill Konyha
Executive Director

OIG Evaluation of Auditee Comments

Comment 1 The executive director of the Office of Community and Rural Affairs stated that the Authority began receiving program income at an unanticipated rate and the Authority's systems were not prepared to receive, deposit, document, and apply the volume of program income that it received. Therefore, when program income began to accumulate, it was not properly reported in HUD's system or allocated.

We agree that the Authority did not always account for program income in its systems accurately and in a timely manner.

Comment 2 The executive director stated that the main reason the Authority did not initially report program income in HUD's system was due to system-wide problems with release 7.3 of the system. These problems caused HUD to issue an emergency release of the system in January 2012. The Authority was not able to draw down program income in the system.

HUD's former system administrator said that there were issues with HUD's system crashing before emergency release 7.3.2 of the system in January 2012. However, this did not prevent grantees from reporting program income in the system. HUD's system was also used to report program income for HUD's Neighborhood Stabilization Program. The Authority reported in the system, each quarter from the first quarter of 2012 through the second quarter of 2013, Neighborhood Stabilization Program income received. For example, during the first quarter of 2012, the Authority reported in the system nearly $870,000 in Neighborhood Stabilization Program income received.

The Authority could not draw down program income in HUD's system without first reporting program income.

Comment 3 The executive director stated that in November 2013, the Authority planned to use the program income for four activities with awards totaling nearly $6.7 million. However, the activities did not progress as expected, and the program income was not disbursed as originally anticipated.

To the maximum extent feasible, program income must be used or distributed before a State makes additional withdrawals from the U.S. Treasury. Obligating program income to specific projects does not ensure that program income is used before program funds are drawn down from the U.S. Treasury.

Comment 4 The executive director stated that the Office will ensure that HUD is reimbursed, for transmission to the U.S. Treasury, nearly $373,000 from non-Federal funds. The State should work with HUD's Indianapolis Office of Community Planning and Development to ensure that the U.S. Treasury receives nearly $373,000 from non-Federal funds.

Comment 5 The executive director stated that the Authority will verify the source of the apparent overreported program income in HUD’s system totaling more than $293,000 and reduce it accordingly. The State should work with HUD’s Indianapolis Office of Community Planning and Development to reduce the more than $293,000 in overreported program income in HUD’s System.

Comment 6 The executive director stated that the Authority now has written procedures and controls in place to send a monthly report to the Office that details all of the program income received, disbursed, and remaining during the period. On March 1, 2015, the Authority implemented new written procedures and controls for reporting program income in HUD’s system and drawing down program income. The executive director provided the Authority’s program incoming funds policy, effective July 24, 2015, as an attachment. The policy defined program income as funds received from a loan repayment. However, program income includes more than just funds received from a loan repayment. The executive director stated that the Office will monitor the Authority to ensure that it makes every effort to obligate and expend all program income received in accordance with HUD’s regulations. The State should work with HUD’s Indianapolis Office of Community Planning and Development to ensure that it implements adequate procedures and controls to ensure that the Authority (1) uses available program income for eligible activities before the Office of the Lieutenant Governor draws down program funds from the U.S. Treasury and (2) accurately reports program income in HUD’s system.

We did not include in appendix B the Authority’s program incoming funds policy since it was not necessary to understand the executive director’s comments. We provided the Director of HUD’s Indianapolis Office of Community Planning and Development with a complete copy of the written comments plus the attachment.

Comment 7 The executive director stated that a step regarding the posting of quarterly performance reports will be added to the policies and procedures for completing the action plan and quarterly performance reports. The State should work with HUD’s Indianapolis Office of Community Planning and Development to ensure that the Office accurately posts the State’s quarterly performance reports for the program to its official Web site no later than 33 days following the end of each quarter.

Appendix C

Federal Requirements

Findings 1 and 2

HUD's grant agreements with the State for the program, dated April 13, 2009, February 2, 2010, and February 21, 2011, state that the State must comply with all waivers and alternative requirements in the Federal Register, dated February 13, 2009.

Finding 1

74 FR (Federal Register) 7247, dated February 13, 2009, states that grantees will use HUD's system to record obligations and make draws of program funds from the line of credit established for each grant. HUD will use the transactional data from its system and from grantee reports to monitor for inconsistencies or performance problems that suggest fraud, abuse of funds, and duplication of benefits and reconcile budgets, obligations, funding draws, and expenditures. Page 7251 states that to the maximum extent feasible, program income must be used or distributed before a State makes additional withdrawals from the U.S. Treasury.

Finding 2

74 FR 7252, dated February 13, 2009, states that each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter. The reports to HUD must be submitted using HUD's system and, within 3 days of submission, be posted to the grantee's official Web site open to the public.