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TO: Anthony P. Scardino, Acting Deputy Chief Financial Officer, F

FROM: Thomas R. McEnanly, Director, Financial Audits Division, GAF

SUBJECT: Review of American Recovery and Reinvestment Act Formula Allocations

HIGHLIGHTS

What We Audited and Why

We performed an audit of the U.S. Department of Housing and Urban Development's (HUD) formula-based allocations related to five programs funded in the American Recovery and Reinvestment Act of 2009 (Recovery Act). We reviewed all five HUD programs that had funds which were allocated based on a statutory formula. The five programs are the (1) Public Housing Capital Fund, (2) Native American Housing Block Grant program, (3) Community Development Fund, (4) HOME Investment Partnerships Program, and (5) Homelessness Prevention Fund.

We performed the audit as part of the Recovery Act mandate that "every taxpayer dollar spent on economic recovery be subject to unprecedented levels of transparency and accountability." Our objective was to determine whether HUD complied with the Recovery Act in calculating and allocating the funds to HUD recipients.

What We Found

HUD allocated the $7.96 Billion in formula-based grant funds in accordance with the requirements of the Recovery Act for each of the five programs and properly calculated the amounts to be distributed to HUD recipients.

What We Recommend

There are no recommendations made in this report.

Auditee's Response

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

Public Law 111-005, the American Recovery and Reinvestment Act of 2009 (Recovery Act), was signed into law on February 17, 2009, and made supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and state and local fiscal stabilization for the fiscal year ending September 30, 2009. The Recovery Act's purposes and principles are (1) to preserve and create jobs and promote economic recovery; (2) to assist those most impacted by the recession; (3) to provide investments needed to increase economic efficiency by spurring technological advances in science and health; (4) to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and (5) to stabilize state and local government budgets in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases. The general principles concerning use of funds are as follows: "The President and the heads of federal departments and agencies shall manage and expend the funds made available in this Act so as to achieve the purposes specified in subsection (a), including commencing expenditures and activities as quickly as possible consistent with prudent management."

The Recovery Act requires that the appropriations it provided to five of the U.S. Department of Housing and Urban Development (HUD) programs be allocated using formulas. The formula funded appropriations totaled $7.96 Billion and the five programs are the (1) Public Housing Capital Fund, (2) Native American Housing Block Grant (NAHBG) program, (3) Community Development Fund, (4) HOME Investment Partnerships Program (HOME), and (5) Homelessness Prevention Fund (HPF). Below is a brief description of the programs and the components used in the allocation formulas.

Public Housing Capital Fund
The Public Housing Capital Fund provides funds for the capital and management activities of public housing agencies as authorized under Section 9 of the U.S. Housing Act of 1937. These activities include the modernization and development of public housing. Funds from this program cannot be used for operations or rental assistance. The formula has two main components, modernization need and accrual need, which are computed based on data from the Public and Indian Housing Information Center.

Native American Housing Block Grants
The NAHBG program funds new construction, acquisition, rehabilitation, and infrastructure development activities. Funds can also be used to leverage private-sector financing for new construction, renovation, and energy retrofit investments. The current assisted stock component is based on data gathered from the tribes via formula response forms, while the need component is calculated using data from the Decennial Census, updated for births and deaths, from the U.S. Census Bureau. The NAHBG formula consists of two main components, current assisted stock and need.

Community Development Fund (also known as Community Development Block Grants (CDBG))

The CDBG program provides funds to local governments for a wide range of activities intended to create suitable living environments, provide decent affordable housing, and create economic opportunities, primarily for people of low and moderate income. The funding formula for the CDBG program is based on several measures of community need: poverty, population, housing overcrowding, age of housing, and growth lag. The data behind these measures are obtained from the U.S. Census Bureau.

HOME Investment Partnerships Program (HOME) (also known as Tax Credit Assistance Program (TCAP))

TCAP provides grants for capital investments in low-income housing tax credit projects. Funds are provided to the housing credit agencies in each state by a formula-based allocation. The housing credit agencies in each state will distribute these funds competitively according to their qualified allocation plan.

Homelessness Prevention Fund (also known as Emergency Shelter Grants)

HPF provides financial assistance and services to prevent individuals and families from becoming homeless and help those who are experiencing homelessness to be quickly rehoused and stabilized. The program is intended to target individuals and families who would be homeless but for this assistance. The funds provide for a variety of assistance, including short-term or medium-term rental assistance, and housing relocation and stabilization services, including mediation, credit counseling, security or utility deposits, utility payments, moving cost assistance, and case management.

Our objective was to determine whether HUD complied with the Recovery Act in calculating and allocating the funds to HUD recipients.

RESULTS OF AUDIT

Finding 1: Formula-Based Grant Funds Were Allocated in Accordance with Recovery Act Requirements

We verified that the funds were allocated in accordance with the requirements of the Recovery Act for each of the five programs by performing recalculations of the formulas and using ratio analysis based on the fiscal year 2008 formula allocations. HUD complied with the Recovery Act in calculating and allocating the funds to HUD recipients. Below are the summary results of our review for each of the programs.

Public Housing Capital Fund

Public Housing Capital Fund formula grant allocations were made in accordance with regulations at 24 CFR (*Code of Federal Regulations*) 905.10 as required by the Recovery Act. The Public Housing Capital Fund received $4 billion from the Recovery Act, which is available until September 30, 2011. Of this amount, $3 billion is required to be distributed by the same formula used for amounts made available in fiscal year 2008 under the Public Housing Capital Fund program. The HUD Secretary was given the authority to exclude any public housing agencies that were designated as troubled or chose not to accept such funding from the allocation but did not exercise this power. Because the number of public housing agencies and the formula used to calculate the Recovery Act allocations were the same as those for the fiscal year 2008 calculations, we used a ratio of the total Recovery Act funds allocated to the total fiscal year 2008 funds allocated to calculate the expected Recovery Act allocations. No exceptions were noted during our review.

Native American Housing Block Grants

NAHBG allocations were made in accordance with regulations at 24 CFR Part 1000. Subpart D provides the specific guidance for calculating the formula, and appendixes A and B provide additional details to allocate the funds in accordance with the Recovery Act requirements. No significant discrepancies were noted in our review. The NAHBG program received $510 million from the Recovery Act, which is available until September 30, 2011. Of this funding, $255 million is required to be distributed by the same funding formula used for the NAHBG program in fiscal year 2008.

The Office of Public and Indian Housing, Office of Native American Programs (ONAP), administers the NAHBG program and performed the allocation of the Recovery Act appropriations. The NAHBG formula consists of two main components, current assisted stock and need. We determined that the calculation of the current assisted stock component did not take the amount of available funding into consideration. Instead, it was based on the number of assisted housing units a tribe operates. The Recovery Act provided $255 million for allocation under the NAHBG formula; however, this amount was not enough to cover the current assisted stock component of the NAHBG formula, which was calculated at $300 million for fiscal year 2008. To ensure that each tribe would receive an allocation of Recovery Act funds and comply with the requirement of allocating the Recovery Act funds according to the fiscal year 2008 formula, ONAP allocated the Recovery Act funds based upon a proportion of the funds each tribe received in fiscal year 2008. We used ONAP's methodology to recalculate the Recovery Act allocations for each tribe and compared them to ONAP's calculations. No exceptions were noted in our review.

Community Development Fund

Recovery Act funds for the CDBG program were allocated in accordance with Recovery Act requirements as outlined in 42 U.S.C. (*United States Code*) 5306 to grantees that received funding in fiscal year 2008. The CDBG program received $1 billion from the Recovery Act, which is available until September 30, 2010. Provisions of 42 U.S.C. 5306 require that after all required reservations and set-asides are made, 70 percent of available funds be distributed to entitlement areas (local government units) and 30 percent to nonentitlements (states).

We verified that the funds remaining after reservations made under provisions of the Recovery Act and for insular areas were split 70/30 between entitlements and nonentitlements. No exceptions were noted. In addition to using the CDBG formula to calculate the Recovery Act allocations for a sample of localities and comparing them to the actual Recovery Act allocations, we used a proportion of the total Recovery Act funds to total fiscal year 2008 funds allocated to the entitlements to verify 100 percent of the CDBG Recovery Act entitlement allocations. No exceptions were noted in the review of entitlement allocations. To verify the allocations to nonentitlements, we used a proportion of the total Recovery Act funds to the total fiscal year 2008 funds allocated to calculate the expected Recovery Act allocations. The expected allocations were then compared to the actual Recovery Act allocations. No exceptions were noted in the review of the nonentitlement allocations.

Tax Credit Assistance Program

Funds for HOME/TCAP were allocated to the states based on the percentage of HOME funds each state received in fiscal year 2008. The "state" includes the state and all participating local governments within the state. The Recovery Act provided $2.25 billion for TCAP, which is available until September 30, 2011. The funds are to be distributed to state housing credit agencies, as defined by section 42(h) of the Internal Revenue Code which regulates low-income housing tax credits. TCAP funds are required to be allocated to each state based on the percentage of HOME funds apportioned to the state and the participating jurisdictions therein for fiscal year 2008.

We calculated the percentage of HOME funds each state received in fiscal year 2008 and used the results to calculate the allocation of Recovery Act funds for each state. The results of our calculations were then compared to the amounts HUD allocated to each state. No exceptions were noted in our review.

Homelessness Prevention Fund

HPF received $1.5 billion from the Recovery Act, which is available until September 30, 2011. HPF Recovery Act funds were allocated to eligible grantees pursuant to the requirements of the McKinney-Vento Homeless Assistance Act in accordance with Recovery Act requirements. The McKinney-Vento Homeless Assistance Act requires appropriations for HPF to be allocated on a needs basis. The Office of Community Planning and Development uses the CDBG formula, which uses several measures of need obtained from the U.S. Census Bureau to allocate the appropriations among grantees eligible for the HPF program. Typically the HPF program receives a much smaller appropriation than CDBG. Therefore, 42 U.S.C. 11373(b) requires that if any grantee would receive a grant of less than .05 percent of the amounts appropriated for the HPF program, that grant shall be reallocated to the state. However, the Recovery Act gave the HUD Secretary the authority to set a minimum grant amount, which was set at $500,000 for the Recovery Act funds. Therefore, any Recovery Act grants under $500,000 will be reallocated to the state in which the grantee resides.

For entitlement localities, we calculated the ratio of total Recovery Act funds to the total fiscal year 2008 CDBG funds allocated (to the localities that received Recovery Act funds). This ratio was then multiplied by the fiscal year 2008 allocations to determine the expected Recovery Act allocations. For states, we used the ratio of total Recovery Act funds to the total fiscal year 2008 CDBG funds to calculate preliminary Recovery Act allocations. Amounts under $500,000 were added to the preliminary allocation for the appropriate state to determine the expected Recovery Act allocation. There were no discrepancies between our expected and the actual

Recovery Act allocations for either the entitlement localities or the states. We also verified that each insular area received the same proportion of the total funds set aside for it from the Recovery Act appropriations as from the fiscal year 2008 appropriations. No exceptions were noted in our review.

Conclusion

We verified that HUD allocated its formula-based grant funds in accordance with the requirements of the Recovery Act for each of the five programs by performing recalculations of the formulas and using ratio analysis based on the fiscal year 2008 formula allocations. HUD complied with the Recovery Act in calculating and allocating the funds to HUD recipients.

Recommendations

Based on the results of the review, we made no recommendations.

SCOPE AND METHODOLOGY

Our audit of the Recovery Act formula allocations generally covered the period February 17 through August 14, 2009, Our audit was performed in Washington, D.C. at HUD Headquarters.

We reviewed formula allocations made by HUD under the five different programs based on the Recovery Act, enacted on February 17, 2009. We reviewed program database files for each formula, interviewed responsible HUD officials, and obtained supporting documents from HUD program staff. We also reviewed applicable laws, regulations, and other requirements relating to the Recovery Act and our objective.

During our review, we verified data factors and supporting documentation used in the formula calculations, and we recalculated the formulas for the five programs that had funds allocated based on a formula. We also interviewed responsible HUD officials regarding their procedures for the calculation of the formulas.

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

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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:

- Computational accuracy of allocation methodology.
- Compliance with laws and regulations (Recovery Act).

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we did not identify any significant weaknesses in HUD's allocation of its Recovery Act formula based grant allocations.

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Comment 1

OIG Evaluation of Auditee Comments

Comment 1 HUD's management did not make any comments on our report.