



March 2019

# DISASTER RECOVERY

## Better Monitoring of Block Grant Funds Is Needed

# GAO Highlights

Highlights of [GAO-19-232](#), a report to congressional requesters

## Why GAO Did This Study

The 2017 hurricanes (Harvey, Irma, and Maria) caused an estimated \$265 billion in damage, primarily in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. As of February 2019, Congress had provided over \$35 billion to HUD for CDBG-DR grants to help communities recover. Communities may use these funds to address unmet needs for housing, infrastructure, and economic revitalization. GAO was asked to evaluate the federal government's response to the 2017 hurricanes. In this initial review of CDBG-DR, GAO examined, among other things, (1) the status of the 2017 grants, (2) HUD's review of the initial steps grantees have taken and its plans for future monitoring, and (3) challenges HUD and grantees face in administering grants.

GAO reviewed documentation from the four largest 2017 CDBG-DR grantees and HUD. GAO also reviewed prior work on CDBG-DR and interviewed officials from HUD and the four grantees.

## What GAO Recommends

Congress should consider permanently authorizing a disaster assistance program that meets unmet needs in a timely manner. GAO also makes five recommendations to HUD, which include developing guidance for HUD staff to use in assessing grantees, developing a monitoring plan, and conducting workforce planning. HUD generally agreed with three recommendations and partially agreed with two, which GAO clarified to address HUD's comments.

View [GAO-19-232](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or [garciadiazd@gao.gov](mailto:garciadiazd@gao.gov).

March 2019

## DISASTER RECOVERY

### Better Monitoring of Block Grant Funds Is Needed

## What GAO Found

As of September 2018, the four states and territories that received the most 2017 Community Development Block Grant Disaster Recovery (CDBG-DR) funds had signed grant agreements with the Department of Housing and Urban Development (HUD). Before signing the agreements, HUD certified the grantees' financial processes and procedures. It also approved the grantees' assessments of their capacity to carry out the recovery and of unmet needs (losses not met with insurance or other forms of assistance). Before funding begins to reach disaster victims, the grantees need to take additional steps, such as finalizing plans for individual activities. As of January 2019, Texas had drawn down about \$18 million (of \$5 billion) for administration and planning only, and Florida had drawn down about \$1 million (of \$616 million) for administration, planning, and housing activities. Puerto Rico and the U.S. Virgin Islands had not drawn down any of the \$1.5 billion and \$243 million, respectively, they had been allocated.

HUD lacks adequate guidance for staff reviewing the quality of grantees' financial processes and procedures and assessments of capacity and unmet needs, and has not completed monitoring or workforce plans. The checklists used to review grantees' financial processes and procedures and assessments ask the reviewer to determine if the grantee included certain information, such as its procurement processes, but not to evaluate the adequacy of that information. In addition, the checklists, which include a series of "yes" or "no" questions, do not include guidance that the HUD reviewer must consider. HUD also does not have a monitoring plan that identifies the risk factors for each grantee and outlines the scope of monitoring. Further, HUD has not developed a workforce plan that identifies the critical skills and competencies HUD needs and includes strategies to address any staffing gaps. Adequate review guidance, a monitoring plan, and strategic workforce planning would improve HUD's ability to oversee CDBG-DR grants.

Without permanent statutory authority and regulations such as those that govern other disaster assistance programs, CDBG-DR appropriations require HUD to customize grant requirements for each disaster in *Federal Register* notices—a time-consuming process that has delayed the disbursement of funds. In a July 2018 report, the HUD Office of Inspector General found that as of September 2017, HUD used 61 notices to oversee 112 active CDBG-DR grants. Officials from one of the 2017 grantees told us that it was challenging to manage the multiple CDBG-DR grants it has received over the years because of the different rules. CDBG-DR grantees have faced additional challenges such as the need to coordinate the use of CDBG-DR funds with other disaster recovery programs that are initiated at different times and administered by other agencies. HUD officials said that permanently authorizing CDBG-DR would allow HUD to issue permanent regulations for disaster recovery. Permanent statutory authority could help address the challenges grantees face in meeting customized grant requirements for each disaster, such as funding lags, varying requirements, and coordination with multiple programs. The expected increase in the frequency and intensity of extreme weather events underscores the need for a permanent program to address unmet disaster needs.

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### Abbreviations

CDBG	Community Development Block Grant
CDBG-DR	Community Development Block Grant Disaster Recovery
CPD	Office of Community Planning and Development
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
SBA	Small Business Administration
Stafford Act	Robert T. Stafford Disaster Relief and Emergency Assistance Act

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March 25, 2019

Congressional Requesters

Three historic hurricanes made landfall in the United States in 2017 and affected nearly 26 million people. Hurricanes Harvey and Irma marked the first time two Category 4 hurricanes hit the continental United States during the same season, and Hurricane Maria was the first Category 4 hurricane to make landfall on the main island of Puerto Rico in 85 years.<sup>1</sup> The National Oceanic and Atmospheric Administration has estimated the total cost of these three major 2017 hurricanes at \$265 billion, placing them among the top five costliest hurricanes on record in the United States, along with Hurricanes Katrina and Sandy.<sup>2</sup>

In response to the damage caused by the 2017 hurricanes, Congress has provided \$35.4 billion in supplemental appropriations through the Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program to help affected communities recover.<sup>3</sup> Communities are allowed to use their CDBG Disaster Recovery (CDBG-DR) grants to address a wide range of unmet recovery needs—losses not met with insurance or other forms of assistance, including federal disaster assistance—related to housing, infrastructure, and

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<sup>1</sup>The Saffir-Simpson Hurricane Wind Scale is a 1 to 5 rating based on a hurricane's sustained wind speed. This scale estimates potential property damage. Hurricanes reaching Category 3 and higher are considered major hurricanes because of their potential for significant loss of life and damage. Category 3 hurricanes have sustained winds of 111-129 miles per hour and Category 4 hurricanes sustained winds of 130-156 miles per hour.

<sup>2</sup>For purposes of this report, we refer to Hurricanes Harvey, Irma, and Maria as the 2017 hurricanes. According to the National Oceanic and Atmospheric Administration, the five costliest hurricanes on record are Hurricane Katrina at \$160 billion, Hurricane Harvey at \$125 billion, Hurricane Maria at \$90 billion, Hurricane Sandy at approximately \$70 billion, and Hurricane Irma at \$50 billion. (All figures are in 2017 constant dollars.)

<sup>3</sup>The Supplemental Appropriations for Disaster Relief Requirements Act, 2017, Pub. L. No. 115-56, Division B, 131 Stat. 1129, 1137 (2017) (hereafter referred to as Pub. L. No. 115-56), enacted on September 8, 2017, appropriated \$7.4 billion in CDBG Disaster Recovery funding for major disasters declared in calendar year 2017. On February 9, 2018, Congress appropriated an additional \$28 billion in CDBG Disaster Recovery funding primarily for major disasters declared in 2017 through the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018, Pub. L. No. 115-123, Division B, Subdivision 1, 132 Stat. 64, 103 (2018) (hereafter referred to as Pub. L. No. 115-123). The act required HUD to allocate in total no less than \$11 billion to Puerto Rico and the U.S. Virgin Islands.

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economic revitalization.<sup>4</sup> Congress also appropriated funds for agencies such as the Federal Emergency Management Agency (FEMA) and the Small Business Administration (SBA) to provide grants and loans for disaster recovery.<sup>5</sup>

The 2017 hurricanes caused the most damage in Puerto Rico, Texas, the U.S. Virgin Islands, and Florida. As of February 2019, HUD had awarded approximately \$19.9 billion of the CDBG-DR funds to Puerto Rico, \$9.8 billion to Texas, \$1.9 billion to the U.S. Virgin Islands, and \$1.3 billion to Florida.<sup>6</sup> Congress required that HUD certify, in advance of making a grant, that the designated grantees had sufficient financial controls, procurement processes, and procedures to prevent duplication of benefits.<sup>7</sup> Some questions have been raised about the administration of CDBG-DR funds for prior disasters, including grantees' capacity to administer the funds and ability to adhere to procurement requirements.

You asked us to review the federal government's response to the 2017 hurricanes. This is our first report on CDBG-DR funds in response to your request, and it focuses primarily on the early stages of the grant process

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<sup>4</sup>Traditional CDBG program funds can be used for housing, economic development, neighborhood revitalization, and other community development activities.

<sup>5</sup>GAO has ongoing work on these other disaster recovery funds, including those appropriated for FEMA and SBA.

<sup>6</sup>The remaining approximately \$2.5 billion was awarded to states affected by 2017 disasters other than Hurricanes Harvey, Irma, and Maria or prior disasters. As of February 2019, HUD had allocated via *Federal Register* notices \$17.2 billion of the \$32.9 billion awarded to Puerto Rico, Texas, the U.S. Virgin Islands, and Florida. See *Allocations, Common Application, Waivers, and Alternative Requirements for 2017 Disaster Community Development Block Grant Disaster Recovery Grantees*, 83 Fed. Reg. 5844 (Feb. 9, 2018), hereafter referred to as the February 2018 *Federal Register* notice, and *Allocations, Common Application, Waivers, and Alternative Requirements for Community Development Block Grant Disaster Recovery Grantees*, 83 Fed. Reg. 40314 (Aug. 14, 2018), hereafter referred to as the August 2018 *Federal Register* notice. As of February 2019, HUD had not allocated via *Federal Register* notice the remaining \$15.7 billion.

<sup>7</sup>When the President issues a major disaster declaration, Section 312 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Pub. L. No. 93-288) requires federal agencies providing disaster assistance to ensure that individuals and businesses do not receive disaster assistance for losses for which they have already been compensated or may expect to be compensated. 42 U.S.C. § 5155. Duplication of benefits occurs when compensation from multiple sources exceeds the need for a particular recovery purpose.



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for the four largest 2017 CDBG-DR grants.<sup>8</sup> Specifically, this report examines (1) the status of the 2017 CDBG-DR grants; (2) the steps the 2017 CDBG-DR grantees have taken to establish financial processes and procedures, build capacity, and estimate unmet needs; (3) the extent to which HUD has reviewed the steps that grantees have taken and developed plans for future monitoring; and (4) the challenges HUD and grantees have faced in administering grants.

To determine the status of the 2017 CDBG-DR grants, we reviewed relevant laws and the *Federal Register* notices allocating the CDBG-DR funds and interviewed HUD officials to determine the steps grantees were required to take before signing a grant agreement and expending their 2017 CDBG-DR funds.<sup>9</sup> We reviewed documents, such as action plans describing how grantees planned to use their funds, to determine when they were submitted and approved. To determine how much CDBG-DR funding the 2017 grantees had drawn down, we examined data from the Disaster Recovery Grant Reporting system, a HUD database of CDBG-DR funding, reported expenditures, and other information. We reviewed data as of January 2019 (the most recent month available during our review). To assess the reliability of these data, we reviewed relevant documentation on the system and interviewed HUD officials knowledgeable about the data. We determined that the data were sufficiently reliable for reporting CDBG-DR draw down information.

To determine the steps the 2017 CDBG-DR grantees have taken to establish financial processes and procedures, build capacity, and estimate unmet needs, we reviewed grantees' documents, such as their organizational charts and capacity assessments, to determine how grantees plan to administer the CDBG-DR grants. To determine how grantees calculated their unmet housing needs for homeowners and renters, we reviewed grantees' descriptions of their methodologies in their approved action plans and interviewed grantee officials. Although we did not conduct an extensive review of the grantees' methodologies, we compared their methodologies to HUD's methodology (described in

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<sup>8</sup>In this report, we refer to the four largest 2017 grantees—Puerto Rico, Texas, the U.S. Virgin Islands, and Florida—as the 2017 grantees and their grants as the 2017 grants. Our future work will focus on HUD's monitoring of the 2017 grants, among other things.

<sup>9</sup>Pub. L. No. 115-56; Pub. L. No. 115-123; February 2018 *Federal Register* notice, 83 Fed. Reg. 5844; and August 2018 *Federal Register* notice, 83 Fed. Reg. 40314.

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*Federal Register* notices), identifying any differences.<sup>10</sup> We also visited Puerto Rico and Texas—the 2017 grantees that received the largest amounts of CDBG-DR funds—and conducted phone interviews with officials from the U.S. Virgin Islands and Florida.

To examine the extent to which HUD has reviewed the steps that grantees have taken and developed plans for future monitoring, we reviewed HUD documents, such as the completed checklists it used to review grantees' documentation. We compared these checklists against relevant statutory and regulatory requirements and federal internal control standards.<sup>11</sup> To determine how HUD planned to monitor the CDBG-DR grantees, we reviewed HUD documents, such as its monitoring handbook and monitoring schedule for fiscal year 2019. We also interviewed HUD officials about their resource needs, hiring plans, and plans to monitor the 2017 CDBG-DR grants. We compared HUD's monitoring guidance against internal control standards and its hiring plans against key principles we developed for workforce planning.<sup>12</sup>

To determine the challenges that HUD and grantees have faced in administering grants, we conducted a literature search for GAO, HUD Office of Inspector General (OIG), and other reports on CDBG-DR funds used to recover from the 2005 Gulf Coast hurricanes and Hurricane Sandy and reviewed relevant reports.<sup>13</sup> We also interviewed HUD officials

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<sup>10</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5868; and August 2018 *Federal Register* notice, 83 Fed. Reg. 40314, 40323.

<sup>11</sup>Pub. L. No. 115-56 and Pub. L. No. 115-123 require HUD to certify that CDBG-DR grantees have proficient financial controls, procurement processes, and grant management procedures and grantees to submit action plans to HUD. In addition, the February 2018 *Federal Register* notice requires that grantees demonstrate that they have the capacity to effectively manage the CDBG-DR funds and that their action plans include an assessment of unmet needs. February 2018 *Federal Register* notice, 83 Fed. Reg. 5847, 5849. GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

<sup>12</sup>[GAO-14-704G](#) and GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003). As part of this prior work, we developed key principles for workforce planning by synthesizing information from meetings with organizations with government-wide responsibilities for or expertise in workforce planning; our own guidance, reports, and testimonies on federal agencies' workforce planning and human capital management efforts; leading human capital periodicals; and our own experiences in human capital management.

<sup>13</sup>For the purposes of this report, we refer to Hurricanes Katrina, Rita, and Wilma as the Gulf Coast hurricanes. We focused on these hurricanes because, as previously noted, Katrina—the costliest of the three Gulf Coast hurricanes—and Sandy were among the top five costliest hurricanes on record in the United States.

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and the 2017 CDBG-DR grantees to obtain their perspectives on the challenges in administering the 2017 grants. Appendix I describes our objectives, scope, and methodology in greater detail.

We conducted this performance audit from January 2018 to March 2019 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Overview of Federal Disaster Response

Federal agencies can respond to a disaster when effective response and recovery are beyond the capabilities of the affected state and local governments. In such cases, the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) permits the President to declare a major disaster in response to a request by the governor of a state or territory or by the chief executive of a tribal government.<sup>14</sup> Such a declaration is the mechanism by which the federal government becomes involved in funding and coordinating response and recovery activities.

At least 30 federal agencies administer disaster assistance programs and activities. Under the *National Response Framework*, which governs any type of federal disaster or emergency response, the Department of Homeland Security (DHS) is the federal department with primary responsibility for coordinating disaster response.<sup>15</sup> Within DHS, FEMA has lead responsibility and provides three principal forms of funding for disaster recovery—Individual Assistance, Public Assistance, and Hazard Mitigation.

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<sup>14</sup>42 U.S.C. § 5170.

<sup>15</sup>The *National Response Framework* is part of the National Preparedness System established in Presidential Policy Directive 8. It is to be used to manage any type of disaster or emergency response, regardless of scale, scope, and complexity. Specifically, this framework covers actions to save lives, protect property and the environment, stabilize communities, and meet basic human needs following an incident. Department of Homeland Security, Federal Emergency Management Agency, *National Response Framework, Third Edition* (Washington, D.C.: June 2016).

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- The **Individual Assistance Program** provides financial assistance directly to survivors for expenses that cannot be met through insurance or low-interest loans, such as temporary housing, counseling, unemployment compensation, or medical expenses.
  - The **Public Assistance Program** provides federal disaster grant assistance to state, local, tribal, and territorial governments and certain types of nonprofit organizations for debris removal, emergency protection, and the restoration of facilities.
  - The **Hazard Mitigation Program** is designed to help communities prepare for and recover from future disasters. It funds a wide range of projects, such as purchasing properties in flood-prone areas, adding shutters to windows, and rebuilding culverts in drainage ditches.

The Small Business Act also authorizes SBA to make direct loans to help businesses, nonprofit organizations, homeowners, and renters repair or replace property damaged or destroyed in a federally declared disaster. HUD uses data from FEMA and SBA to make decisions on the amount of CDBG-DR funding to allocate to affected communities.

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## History of CDBG-DR

The Housing and Community Development Act of 1974 created the CDBG program to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons.<sup>16</sup> Program funds can be used for housing, economic development, neighborhood revitalization, and other community development activities. Because the CDBG program already has a mechanism to provide federal funds to states and localities, the program is widely viewed as a flexible solution to disburse federal funds to address unmet needs in emergency situations. When disasters occur, Congress often appropriates additional CDBG funding (CDBG-DR) through supplemental appropriations. These appropriations often provide HUD the authority to waive or modify many of the statutory and regulatory provisions governing the CDBG program, thus providing states with greater flexibility and discretion to address recovery needs. Eligible activities that grantees have undertaken with

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<sup>16</sup>Under the traditional CDBG program, the annual CDBG appropriation is allocated to entitlement communities and states. Entitlement communities are principal cities of metropolitan statistical areas, other metropolitan cities with populations of at least 50,000, and qualified urban counties with a population of 200,000 or more (excluding the populations of entitlement cities). States distribute CDBG funds to localities not qualified as entitlement communities.

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CDBG-DR funds include relocation payments to displaced residents, acquisition of damaged properties, rehabilitation of damaged homes, rehabilitation of public facilities such as neighborhood centers and roads, and hazard mitigation.

In numerous appropriations from fiscal year 1993 to 2018, Congress provided more than \$86 billion in CDBG-DR funds to help states recover from federal disasters.<sup>17</sup> For example, Congress directed CDBG-DR funds toward recovery and rebuilding efforts in the Gulf Coast after Hurricanes Katrina, Rita, and Wilma in 2005; New York after the September 11th terrorist attacks in 2001; North Dakota, South Dakota, and Minnesota after the floods in 1997; Oklahoma City after the 1995 bombing of the Alfred Murrah Building; Southern California after the 1994 Northridge earthquake; and Florida after Hurricane Andrew in 1992. As of January 2019, HUD was overseeing 106 CDBG-DR grants totaling more than \$54 billion.<sup>18</sup>

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## CDBG-DR Funds Allocated to 2017 Grantees

Once Congress appropriates CDBG-DR funds, HUD publishes notices in the *Federal Register* to allocate the funding appropriated to affected communities based on unmet need, and to outline the grant process and requirements for the grantees' use of the funds. In 2018, HUD allocated the vast majority of the 2017 funds to four agencies: Puerto Rico's Department of Housing (Departamento de la Vivienda), the Texas General Land Office, the U.S. Virgin Islands Housing Finance Authority, and Florida's Department of Economic Opportunity.<sup>19</sup> Table 1 shows the CDBG-DR funding that HUD had allocated to the 2017 grantees as of February 2019 and the remaining funds to be allocated. The funding was allocated in two portions, one in February 2018 and one in August 2018.

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<sup>17</sup>The total amount of CDBG-DR appropriations is in nominal dollars.

<sup>18</sup>This amount includes only \$7.4 billion of the CDBG-DR funds appropriated for the 2017 disasters, the amount for which HUD had signed grant agreements with grantees.

<sup>19</sup>Approximately \$2.5 billion was awarded to states affected by 2017 disasters other than Hurricanes Harvey, Irma, and Maria or prior disasters.

**Table 1: 2017 Community Development Block Grant Disaster Recovery Grants Allocated to Puerto Rico, Texas, the U.S. Virgin Islands, and Florida, as of February 2019**

Dollars in millions

Funding allocation	Puerto Rico	Texas	U.S. Virgin Islands	Florida	Total
February 2018	1,507	5,024	243	616	7,390
August 2018 <sup>a</sup>	8,221	652	779	158	9,810
Remaining funds to be allocated <sup>b</sup>	10,218	4,074	842	550	15,684
<b>Total</b>	<b>19,946</b>	<b>9,751<sup>c</sup></b>	<b>1,864</b>	<b>1,323</b>	<b>32,883<sup>d</sup></b>

Source: Department of Housing and Urban Development. | GAO-19-232

Note: Funding amounts may not sum due to rounding.

<sup>a</sup>The Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018, appropriated \$28 billion in Community Development Block Grant Disaster Recovery funding primarily for major disasters declared in 2017 and required the Department of Housing and Urban Development (HUD) to allocate in total no less than \$11 billion to Puerto Rico and the U.S. Virgin Islands. HUD allocated a portion of these funds in August 2018 via a *Federal Register* notice.

<sup>b</sup>In an April 2018 press release, HUD announced the award of additional funds that as of February 2019 had not been allocated via a *Federal Register* notice.

<sup>c</sup>The total for Texas excludes \$57.8 million allocated to it in a separate *Federal Register* notice in December 2017.

<sup>d</sup>This figure excludes approximately \$2.5 billion that was awarded to states affected by 2017 disasters other than Hurricanes Harvey, Irma, and Maria or prior disasters.

The nearly \$33 billion in funding that Puerto Rico, Texas, the U.S. Virgin Islands, and Florida are to receive for recovery from Hurricanes Harvey, Irma, and Maria is almost 60 times more than the total amount of traditional CDBG funds they received in the last 5 years (see table 2).

**Table 2: Traditional Community Development Block Grant Funds Allocated to Puerto Rico, Texas, the U.S. Virgin Islands, and Florida, Fiscal Years 2014-2018**

Dollars in millions

Fiscal year	Puerto Rico	Texas	U.S. Virgin Islands	Florida	Total
2014	26	61	2	24	113
2015	24	60	2	24	110
2016	24	61	2	24	111
2017	23	60	2	24	109
2018	24	66	2	27	119
<b>Total</b>	<b>121</b>	<b>308</b>	<b>10</b>	<b>123</b>	<b>562</b>

Source: Department of Housing and Urban Development. | GAO-19-232

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The 2017 CDBG-DR funding that Puerto Rico, Texas, and Florida received also greatly exceeded their most recent prior CDBG-DR grants.<sup>20</sup> In 2008, Puerto Rico was allocated approximately \$30 million in CDBG-DR funds in response to Hurricane Ike. Between 2016 and 2017, Texas was allocated approximately \$313.5 million in CDBG-DR funds in response to floods that occurred in 2015 and 2016. In 2016, Florida was allocated approximately \$117.9 million in CDBG-DR funds in response to Hurricanes Hermine and Matthew. The U.S. Virgin Islands had not previously received CDBG-DR funds.

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## Administration of CDBG-DR Funds

HUD's Office of Community Planning and Development (CPD) administers the traditional CDBG program and CDBG-DR funds. Before 2004, existing CPD staff administered CDBG-DR. In 2004, HUD established the Disaster Recovery and Special Issues Division within CPD's Office of Block Grant Assistance to manage large CDBG-DR grantees with allocations of \$500 million or more. CPD field office staff generally manage all other grantees.<sup>21</sup>

Other HUD officials are also involved with CDBG-DR, including the Departmental Enforcement Center and Office of Policy Development and Research. The Departmental Enforcement Center works with several of HUD's program areas, including CPD, to ensure that federally funded programs operate according to program guidelines and regulations. For example, center staff help CPD review grantees' financial processes and procedures. The Office of Policy Development and Research maintains current information on housing needs, market conditions, and existing programs and conducts research on community development issues. Its staff use this information to help CPD award CDBG-DR funds.

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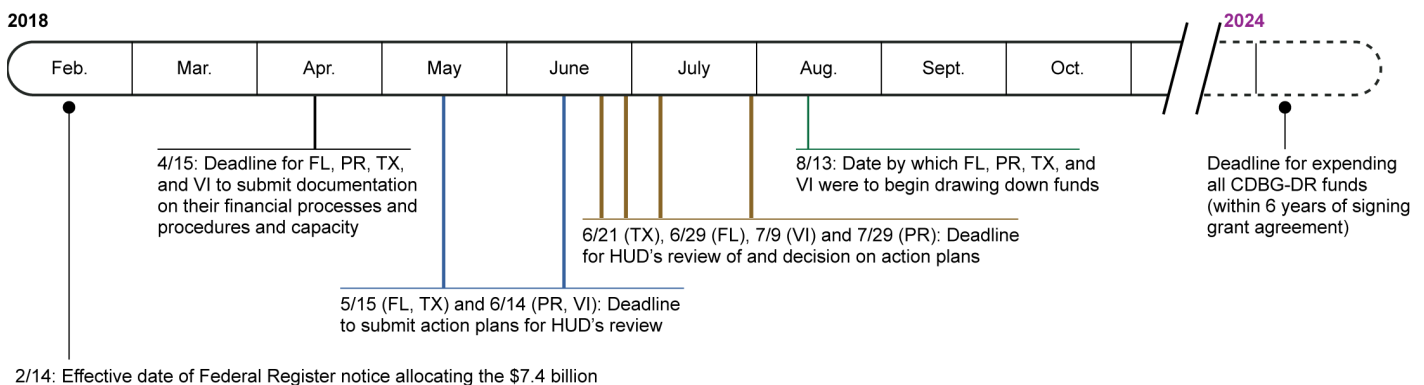
<sup>20</sup>The most recent prior CDBG-DR grant amounts are in nominal dollars.

<sup>21</sup>According to HUD officials, HUD headquarters staff may assume oversight of grants under \$500 million if the grants prove to be high risk.

## All Grantees Have Signed Grant Agreements but Need to Take Additional Steps before Funds Reach Disaster Victims

As of January 2019, all four grantees had entered into grant agreements with HUD for their initial 2017 CDBG-DR funds, but they needed to take additional steps before disbursing funds to individuals affected by the 2017 hurricanes. According to the February 2018 *Federal Register* notice allocating the initial \$7.4 billion in CDBG-DR funds, grantees were required to take a number of steps before they could enter into a grant agreement with HUD and begin expending funds (see fig. 1).<sup>22</sup> These steps had associated deadlines, which the four grantees generally met.

**Figure 1: Timeline of Steps Required before Grantees Could Expend Their Initial 2017 CDBG-DR Funds**



**Legend:**

CDBG-DR = Community Development Block Grant Disaster Recovery  
 FL = Florida  
 HUD = Department of Housing and Urban Development  
 PR = Puerto Rico  
 TX = Texas  
 VI = U.S. Virgin Islands

Source: GAO analysis of Department of Housing and Urban Development information. | GAO-19-232

Note: Puerto Rico and the U.S. Virgin Islands were given more time than Texas and Florida to submit their action plans because, unlike the other two grantees, they had not recently received CDBG-DR funding.

The steps grantees were required to take before they could enter into a grant agreement included the following:

<sup>22</sup>February 2018 *Federal Register* notice. In August 2018, HUD published another *Federal Register* notice allocating \$10.03 billion of the \$28 billion in CDBG-DR funds that Congress appropriated in February 2018. As discussed in more detail later in this report, the August 2018 notice also outlined steps the grantees were required to take before expending these funds. August 2018 *Federal Register* notice.



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- **Financial processes and procedures.** Grantees were required to document their financial controls, procurement processes, and grant management procedures (including those for preventing the duplication of benefits, ensuring timely expenditures, and preventing and detecting fraud, waste, and abuse).<sup>23</sup> By the end of September 2018, HUD had certified that all four grantees had proficient financial controls, procurement processes, and grant management procedures.
  - **Implementation plan.** Grantees were required to submit an implementation plan that describes their capacity to carry out the recovery and how they will address any capacity gaps.<sup>24</sup> By the end of September 2018, HUD had approved the implementation plans and capacity assessments of all four grantees.
  - **Action plan.** Finally, grantees were required to submit an action plan for disaster recovery that includes an assessment of unmet needs for housing, infrastructure, and economic revitalization and a description of activities intended to meet these needs.<sup>25</sup> By the end of July 2018, all four grantees had approved action plans.<sup>26</sup>

Once these steps were completed, HUD and the grantees could sign grant agreements, and the grantees could begin drawing down funds. All four of the grantees had signed grant agreements with HUD by the end of

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<sup>23</sup>All four grantees submitted the required documentation on their financial processes and procedures by the due date. The August 2018 notice allocating additional CDBG-DR funds states that certification of financial controls and procurement processes pursuant to the February 2018 *Federal Register* notice remains in effect. However, grantees are required to update the documentation submitted based on the February notice to reflect any material changes in the submissions. August 2018 *Federal Register* notice, 83 Fed. Reg. 40314, 40316.

<sup>24</sup>All four grantees submitted their implementation plans by the due date. The August 2018 *Federal Register* notice allocating additional CDBG-DR funds states that HUD's determination of the adequacy of the grantee's implementation and capacity assessment pursuant to the February 2018 *Federal Register* notice remains in effect. However, grantees are required to update the documentation submitted based on the February notice to reflect any material changes in the submissions. August 2018 *Federal Register* notice, 83 Fed. Reg. 40314, 40316.

<sup>25</sup>All four grantees submitted their action plans to HUD on or before the deadline, and HUD approved the plans for Florida and Puerto Rico on the required date and the plans for Texas and the U.S. Virgin Islands one day after the required date.

<sup>26</sup>The August 2018 *Federal Register* notice allocating \$10.03 billion required the Florida, Puerto Rico, Texas, and U.S. Virgin Islands grantees to amend their original action plans to reflect the additional allocation they received through the notice. See August 2018 *Federal Register* notice, 83 Fed. Reg. 40314, 40316. All four grantees were to submit the amended action plan to HUD for its review by November 18, 2018.

September 2018. The February 2018 *Federal Register* notice required grantees to begin drawing down funds by August 13, 2018, but a HUD official told us that the grantees were unable to meet this requirement because HUD had not yet finalized an agreement with three grantees by that date and had just entered into a grant agreement with Florida.

The grant agreements require grantees to expend their entire CDBG-DR allocations on eligible activities within 6 years of signing their grant agreements. According to HUD officials, this requirement has been included in grant agreements since 2015 to help speed up the expenditure of funds. (As discussed in the last section of this report, some CDBG-DR grantees have been slow to expend their funds.) As of January 2019, the grantees had generally not drawn down funds for individuals affected by the 2017 hurricanes because they were designing and setting up the activities to assist these individuals. Specifically, as of January 2019, Texas had drawn down approximately \$18 million and Florida had drawn down approximately \$1 million of their allocations generally for administrative and planning expenses.<sup>27</sup> The other two grantees had not drawn down any of their February 2018 allocations (see table 3).

**Table 3: Community Development Block Grant Disaster Recovery Funds Available to Texas, Florida, Puerto Rico, and the U.S. Virgin Islands and Drawdown Amounts, as of January 2019**

Dollars

Grantee <sup>a</sup>	Funding available to grantee <sup>a</sup>	Amount drawn down <sup>b</sup>
Texas	5,024,215,000	17,584,294
Florida	615,922,000	1,022,673
Puerto Rico	1,507,179,000	0
U.S. Virgin Islands	242,684,000	0

Source: Department of Housing and Urban Development. | GAO-19-232

<sup>a</sup>These funds are only those allocated to the grantees in February 2018.

<sup>b</sup>A drawdown is a request for payment made by the grantee against its approved grant for services performed in support of one or more activities. We used HUD drawdown data because it was readily available for all 2017 grantees.

As of the end of 2018, the grantees were taking steps to design and set up the activities approved in their action plans and planned to implement activities in stages.

<sup>27</sup>Florida had drawn down \$527,542 for housing expenses.

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- **Florida.** On September 24, 2018, Florida opened the registration period for a program that provides rehabilitation or replacement assistance to owner-occupied homes and rental properties impacted by Hurricane Irma. According to Florida officials, residents have until March 29, 2019, to register. The purpose of the registration process is for Florida to evaluate the potentially eligible population. According to Florida officials, Florida began taking applications from registrants on November 27, 2018, and staff were conducting eligibility reviews on completed applications as of late December 2018.
  - **Puerto Rico.** Puerto Rico officials said they planned to stagger the implementation of their approved CDBG-DR activities. They would begin with activities they considered to be critical such as providing assistance for the rehabilitation, reconstruction, or relocation of owner-occupied units and gap financing for properties being developed with Low-Income Housing Tax Credits.<sup>28</sup> Officials said they planned to begin taking applications by the end of calendar year 2018 or early 2019 but that the start dates depended on HUD's approval of the activities' policies and procedures.
  - **Texas.** On July 23, 2018, Texas began taking applications for a program that provides assistance for the rehabilitation, reconstruction, and new construction of affordable multifamily rental housing. Texas officials said they expected to begin signing agreements with selected developers early in calendar year 2019. In addition, on November 27, 2018, Texas began taking applications for a program that provides assistance for the rehabilitation and reconstruction of owner-occupied single-family homes. In late December 2018, Texas officials told us they were reviewing the more than 1,500 completed applications for program eligibility.
  - **U.S. Virgin Islands.** The U.S. Virgin Islands planned to first implement two housing programs that provide assistance for the rehabilitation or reconstruction of storm-damaged residential owner-occupied units and for the construction of new homes for first-time homebuyers. U.S. Virgin Islands officials stated that as of November 2018, they were working on policies and procedures for the subrecipients that will help administer these programs and that they

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<sup>28</sup>The Low-Income Housing Tax Credit program encourages private-equity investment in low-income housing through tax credits. The program is overseen by the Internal Revenue Service and administered by state housing finance agencies. For information on the cost of this program, see GAO, *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management*, [GAO-18-637](#) (Washington, D.C.: Sept. 18, 2018).

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planned to launch both programs early in calendar year 2019.<sup>29</sup> The U.S. Virgin Islands also planned to provide assistance for the rehabilitation or construction of affordable rental housing units but did not provide information on when it planned to implement this activity. In addition, officials said they anticipate funding some infrastructure projects in early 2019.

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## Grantees Have Taken Some Steps to Establish Financial Processes and Assess Capacity and Unmet Needs

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### Grantees Generally Used Existing Financial Processes and Procedures for Certification

To meet the requirement for certification of financial controls, procurement processes, and grant management procedures (financial processes and procedures), all four 2017 grantees told us that they generally used processes and procedures that were already in place to administer prior CDBG-DR grants or other HUD funds. For example, Texas and Florida asked HUD to generally rely on the certification and supporting documentation of financial processes and procedures that they had submitted for previous CDBG-DR grants.<sup>30</sup> U.S. Virgin Islands officials told us they generally relied on the financial processes and procedures they have in place for the administration of the traditional CDBG program. Similarly, Puerto Rico officials told us that they relied on existing financial processes and procedures they have in place for other federal funds, including other HUD and FEMA funds.

We and the HUD OIG have ongoing or completed work on controls over CDBG-DR funds. We have ongoing work examining, among other things,

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<sup>29</sup>Grantees can enter into agreements with subrecipients (governmental agencies and nonprofit organizations) to carry out certain activities.

<sup>30</sup>The February *Federal Register* notice stated that if HUD had recently certified the controls, processes, and procedures for a grantee that received a previous CDBG-DR grant, the grantee could request that HUD rely on its previous certification and supporting documentation for its 2017 CDBG-DR grant. February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5847. Florida and Texas requested that HUD rely on its certification and documentation submitted for their 2016 CDBG-DR grants.

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HUD's internal control plan for the 2017 appropriated disaster funds, including CDBG-DR funds. In response to a congressional request, the HUD OIG reviewed the ability of the grantees in Texas and Florida to follow applicable federal regulations and requirements. In its reports on Texas and Florida, the HUD OIG identified concerns with grantees' financial processes and procedures.

- **Texas.** In a May 2018 report, the HUD OIG stated that Texas had prior audit findings related to procurement that the agency should avoid repeating.<sup>31</sup> For example, for a prior CDBG-DR grant, the HUD OIG found that Texas did not show how its procurement process was equivalent to federal requirements.<sup>32</sup> Among other things, the HUD OIG recommended that HUD require Texas to ensure that its procurement and expenditure policies and procedures are implemented and working as designed. Texas responded that it would clarify the procurement processes in its financial submission if needed.
- **Florida.** In September 2018, the HUD OIG found weaknesses in Florida's controls over its drawdown of funds and classification of

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<sup>31</sup>Department of Housing and Urban Development, Office of Inspector General, *The Texas General Land Office, Austin, TX, Should Strengthen Its Capacity To Administer Its Hurricane Harvey Disaster Grants*, 2018-FW-1003 (Fort Worth, TX: May 7, 2018).

<sup>32</sup>At the time of this HUD OIG audit, HUD gave CDBG-DR grantees the option of adopting federal procurement standards or certifying that their procurement standards were equivalent to these standards. HUD considered a grantee's standards to be equivalent if the grantee was able to demonstrate that its processes aligned with each provision of the federal standards. However, the HUD OIG found that Texas did not show how its process was equivalent to the requirements for a cost estimate and cost analysis. See Department of Housing and Urban Development, Office of Inspector General, *HUD Did Not Always Provide Accurate and Supported Certifications of State Disaster Grantee Procurement Processes*, 2016-PH-0005 (Philadelphia, PA: Sept. 29, 2016). According to HUD, there has been a protracted disagreement between HUD and the HUD OIG regarding the procurement requirements that may be imposed on CDBG-DR recipients, specifically the definition of "equivalent." HUD stated that the most recent resolution of this disagreement came in a January 10, 2017, decision memorandum from the former HUD Deputy Secretary, supported by a legal opinion from HUD's Office of General Counsel. According to HUD, these documents supported CPD's position that states have the authority to follow their own procurement standards. However, according to the HUD OIG's December 2018 semiannual report, the HUD OIG disagreed with this assessment and referred this issue to the Deputy Secretary on March 31, 2017. As of the end of fiscal year 2018, the HUD OIG had not received a decision from the Deputy Secretary. See Department of Housing and Urban Development, Office of Inspector General, *Semiannual Report to Congress for the Period Ending September 30, 2018*, SAR 80 (Washington, D.C.: Dec. 17, 2018).

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costs.<sup>33</sup> For example, it found that for a prior CDBG-DR grant, Florida drew down more funds than it expended on administrative and planning costs, and that the grantee charged \$30,000 to a prior CDBG-DR grant that should have been charged to its 2017 CDBG-DR grant. The report acknowledged that Florida had taken steps to address this concern, but the OIG recommended, among other things, that the grantee establish adequate financial controls to ensure that its disaster funds are properly classified and allocated to the correct grant. Florida agreed with the recommendation, noting that it had corrected the discrepancy the HUD OIG identified during the audit and stating that it would continue to improve its internal controls. In addition, Florida officials told us that they have worked with HUD staff to ensure that financial and programmatic staff are trained to correctly classify costs and verify that they are accurately allocated and recorded.

According to HUD OIG officials, they plan to begin similar reviews of Puerto Rico and the U.S. Virgin Islands in early calendar year 2019.

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## Grantees Made Organizational Changes to Increase Capacity and Identified Significant Staffing Needs

The February 2018 *Federal Register* notice required grantees to assess staff capacity and identify necessary personnel for the administration of CDBG-DR funds.<sup>34</sup> To increase their capacity to manage the 2017 CDBG-DR funds, grantees made changes to their organizational structure.

- **Florida.** The Florida Department of Economic Opportunity created a disaster recovery office to administer the 2017 CDBG-DR grants because, according to Florida officials, the grants were significantly larger than its traditional CDBG grant and prior CDBG-DR grants.
- **Puerto Rico.** The Puerto Rico Department of Housing, which had not administered prior CDBG or CDBG-DR funding, created a disaster recovery division to manage its CDBG-DR allocation.
- **Texas.** The Texas General Land Office, the lead state agency for long-term disaster recovery, established a single point of contact for its subrecipients and created a planning team.

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<sup>33</sup>Department of Housing and Urban Development, Office of Inspector General, *The Florida Department of Economic Opportunity, Tallahassee, FL, Should Strengthen Its Capacity To Administer Its Disaster Grants*, 2018-AT-1010 (Atlanta, GA: Sept. 21, 2018).

<sup>34</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5848.

- **U.S. Virgin Islands.** The U.S. Virgin Islands Housing Finance Authority, which administers the territory’s traditional CDBG program, created a division to manage its CDBG-DR allocation.

Grantees still need to fill many vacant positions to administer the 2017 CDBG-DR funds. All of the grantees planned to hire more in-house staff (see table 4). As of December 2018, about 48 percent of the needed full-time equivalent positions at the four grantees were vacant—with vacancies at individual grantees ranging from about 15 percent for Texas to about 78 percent for Puerto Rico.<sup>35</sup> These positions will be funded with CDBG-DR funds.

**Table 4: Number of Full-Time Equivalent Staff That 2017 Grantees Needed to Administer CDBG-DR and Status of Hiring, as of December 2018**

Grantee	Filled	Vacant	FTE goal
Florida	26	12	38
Puerto Rico	30	104	134
Texas	92	16	108
U.S. Virgin Islands	28	30	58
<b>Total</b>	<b>176</b>	<b>162</b>	<b>338</b>

Legend: CDBG-DR = Community Development Block Grant Disaster Recovery; FTE = full-time equivalent

Source: GAO analysis of grantee data. | GAO-19-232

All four 2017 grantees also planned to use contractors to help fill gaps in expertise and operational capacity.

- **Florida.** According to Florida officials, Florida had hired three vendors to help administer its CDBG-DR funds as of December 2018. They stated that the first vendor employed two staff to conduct an organizational study for Florida to help improve staffing efficiencies, the second vendor had 250 staff working to implement Hurricane Irma programs and activities, and the third vendor supplied five project management staff to support CDBG-DR activities. The officials also stated Florida plans to procure third-party monitoring services, contract staff services, and additional support to meet audit and compliance requirements.

<sup>35</sup>The percentage of vacant positions was computed by dividing the number of vacant positions by the full-time equivalent staff goal.

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- **Puerto Rico.** Puerto Rico hired two contractors to help it set up the grant. Specifically, 20 contract staff assisted Puerto Rico with development of its action plan. Puerto Rico also planned to hire vendors to help administer the territory's CDBG-DR activities, but they had not yet determined the number of contract staff needed.
  - **Texas.** According to Texas officials, Texas hired eight vendors to, among other things, administer the state's housing assistance activities and track the progress of its CDBG-DR activities. As of December 2018, these vendors had 192 staff.
  - **U.S. Virgin Islands.** According to a U.S. Virgin Islands official, the U.S. Virgin Islands hired a contractor to help set up the grant, including assisting with the development of its action plan. The official also told us that the U.S. Virgin Islands planned to hire contractors to help support the implementation of its CDBG-DR activities but it had not yet determined the number of contract staff needed.

The HUD OIG has raised concerns about the capacity of two of the 2017 CDBG-DR grantees.<sup>36</sup> In a May 2018 report, the HUD OIG found that Texas did not have enough staff to adequately administer its 2017 CDBG-DR funds.<sup>37</sup> At the time of its review, the HUD OIG found that 37 percent of the grantee's full-time positions were vacant. Texas responded that it had been actively determining optimal staffing levels and hiring timeframes, but did not have a reserve budget to hire staff before receiving its 2017 allocation. Similarly, in a September 2018 report, the HUD OIG recommended that Florida continue to fill its vacancies and assess staffing resources as it prepared for additional disaster funds.<sup>38</sup> Florida accepted the recommendation and stated that it was taking steps to assess and address staffing needs. As discussed in the last section of this report, building the capacity needed to manage large grants has historically been a challenge for CDBG-DR grantees.

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<sup>36</sup>As noted previously, the HUD OIG has not yet completed similar reviews of the other two 2017 grantees.

<sup>37</sup>Department of Housing and Urban Development, Office of Inspector General, 2018-FW-1003.

<sup>38</sup>Department of Housing and Urban Development, Office of Inspector General, 2018-AT-1010.



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## Grantees Generally Used the Same Data as HUD to Estimate Unmet Housing Needs, but Their Methodologies Varied

Grantees were also required to submit an action plan for disaster recovery that includes an assessment of unmet needs in housing, infrastructure, and economic revitalization. The purpose of these unmet needs assessments was to help grantees understand the type and location of community needs and to target their CDBG-DR funds to those areas with the greatest need.<sup>39</sup> We focused on grantees' estimates of unmet housing needs because the February 2018 *Federal Register* notice required grantees to primarily use their initial CDBG-DR allocation to address their unmet housing needs.

## HUD's Estimation of Unmet Needs

Before grantees developed their unmet needs assessments, HUD estimated their unmet needs to allocate the appropriated CDBG-DR funds.<sup>40</sup> HUD calculated unmet housing needs as the number of housing units with unmet needs times the average estimated cost to repair those units less repair funds already provided by FEMA and SBA.<sup>41</sup> HUD relied on FEMA Individual Assistance data to estimate the number of affected owner-occupied and rental units and used SBA data on disaster loans to estimate repair costs. HUD developed five damage categories to determine the level of damage housing units sustained: minor-low, minor-high, major-low, major-high, and severe.<sup>42</sup> Because both acts that appropriated the CDBG-DR funds require HUD to allocate funding to the "most impacted and distressed areas," the agency only included owner-

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<sup>39</sup>See appendix II for information on the activities that grantees plan to implement with their CDBG-DR funds.

<sup>40</sup>See the methodology in the February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5868. This section focuses on the methodology HUD used to allocate the initial \$7.4 billion CDBG-DR appropriation because at the time of our review, HUD had not finalized its review of grantees' amended plans related to the August 2018 allocation. In commenting on our draft report, HUD stated that for the second CDBG-DR appropriation of \$28 billion, its standard methodology for allocating funds based on unmet needs data was rendered moot because Pub. L. No. 115-123 required HUD to allocate in total no less than \$11 billion of the \$28 billion to Puerto Rico and the U.S. Virgin Islands.

<sup>41</sup>In the August 2018 *Federal Register* notice, HUD used the median, rather than the average, real property damage repair costs to calculate the estimated cost to repair housing units. August 2018 *Federal Register* notice, 83 Fed. Reg. 40314, 40325.

<sup>42</sup>For example, HUD determined that owner-occupied units with FEMA-inspected real property damages of less than \$3,000 had minor-low damage, \$3,000 to \$7,999 had minor-high damage, \$8,000 to \$14,999 had major-low damage, \$15,000 to \$28,800 had major-high damage, and more than \$28,800 had severe damage. For the major and severe categories, HUD also considered the level of flooding a unit experienced. See the February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5868 for more information on HUD's damage categories.

occupied and rental units that had major or severe damages in its estimate of unmet housing needs.

To determine the average cost of repairs for owner-occupied and rental units in each damage category, HUD used SBA data rather than FEMA data. HUD said SBA damage assessments better reflect the full cost to repair a unit because the assessments are based on the total physical loss to the unit. In contrast, FEMA assesses damage based on the cost to make the unit habitable, and therefore its estimates are generally lower than SBA's estimates. To estimate unmet needs, HUD then multiplied the number of units it identified as having major-low, major-high, and severe damage by corresponding SBA average cost-of-repair amounts (see table 5).<sup>43</sup>

**Table 5: Department of Housing and Urban Development Estimates of the Average Cost to Repair Housing Units with Unmet Needs by Damage Category**

In dollars

Grantee	Damage category		
	Major-low	Major-high	Severe
Florida	44,810	45,997	67,799
Puerto Rico	38,249	41,595	66,066
Texas	58,956	72,961	102,046
U.S. Virgin Islands	38,249	41,595	66,066

Source: 83 Fed. Reg. 5844 (Feb. 9, 2018). | GAO-19-232

Note: To develop these estimates, the Department of Housing and Urban Development (HUD) used Small Business Administration (SBA) data on the estimated cost to repair units with unmet needs less repair funds already provided by SBA and the Federal Emergency Management Agency (FEMA). The SBA average cost-of-repair amounts were calculated based on a subset of homes in each category that were inspected by both FEMA and SBA. These are the estimates that HUD used in its February 2018 *Federal Register* notice to allocate the initial \$7.4 billion in Community Development Block Grant Disaster Recovery (CDBG-DR) funds. HUD used updated estimates of repair costs in the August notice allocating \$10.03 billion in additional CDBG-DR funds.

<sup>43</sup>SBA average cost of repair amounts were calculated based on a subset of homes in each category that were inspected by both FEMA and SBA.

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## Grantees' Estimation of Unmet Needs

To estimate the needs of owner-occupied and rental units for their unmet needs assessments, the four grantees generally used FEMA and SBA data but used different methodologies to analyze these data.<sup>44</sup> Below is an overview of the methodology each of the 2017 CDBG-DR grantees used to estimate housing needs for owner-occupied and rental units.

- **Florida.** Florida included all SBA applicants and FEMA applicants with units that incurred minor damage as defined by HUD's two lowest damage categories, neither of which was included in HUD's estimate. Florida did not use HUD repair estimates; instead, it developed its own estimates using SBA data.
- **Puerto Rico.** Like Florida, Puerto Rico included all SBA applicants and FEMA applicants with minor damage. Puerto Rico also included an estimate of units with "potential unmet needs." Puerto Rico calculated its own cost-of-repair estimates based on SBA data.
- **Texas.** Texas' methodology was the same as HUD's methodology. Specifically, Texas included FEMA applicants with major and severe damage and used the repair estimates HUD provided in the February 2018 *Federal Register* notice.<sup>45</sup>
- **U.S. Virgin Islands.** The U.S. Virgin Islands included units that FEMA did not inspect and units with minor damage, neither of which HUD included in its estimate. The U.S. Virgin Islands used estimates HUD provided in an April 2018 memorandum to determine the repair costs.

Because three of the grantees tailored their unmet needs estimates for their individual planning purposes, aggregating these estimates would not be appropriate because the estimates do not provide comparable measures of unmet housing needs. Although we did not conduct an extensive assessment of the estimates, we performed some limited analysis to illustrate the impact of some of the grantees' methodological decisions. The three grantees' decisions expanded the definition of unmet housing needs, which resulted in higher estimates compared to HUD's methodology.

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<sup>44</sup>In assessing unmet housing needs, all four grantees considered a number of factors, including the needs of homeowners, renters, and public housing authorities. Because the needs of owner-occupied and rental units comprised the largest portion (47 to 99 percent) of the grantees' total estimates of housing needs, we focused on the methodology grantees used to estimate these needs.

<sup>45</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5868.

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- **Including FEMA applicants with minor damage.** Florida, Puerto Rico, and the U.S. Virgin Islands included FEMA applicants with minor damages that fell into HUD's two lowest categories of damage. Including these applicants increased the needs estimate for the U.S. Virgin Islands by approximately \$431 million. Our analysis showed that including these applicants increased Puerto Rico's needs estimate by at least \$1.5 billion.<sup>46</sup> Grantees said that including FEMA applicants with the two lowest levels of damages provided a more accurate representation of the needs for owner-occupied and rental units. For example, Puerto Rico's action plan states that these applicants were unlikely to receive other federal or local assistance to repair their homes, and therefore would have needs. HUD officials told us that grantees have the discretion to use allocated funds to assist applicants with less severe damage as long as those individuals have unmet needs.
  - **Including SBA applicants that were denied assistance.** Florida and Puerto Rico included SBA applicants whose units were not inspected because they were denied disaster loans, although the extent to which these units sustained damages was unknown. Florida estimated approximately \$1.8 billion and Puerto Rico approximately \$1.5 billion in housing needs for these SBA applicants. Florida and Puerto Rico officials told us that they included these applicants because being denied did not necessarily mean that these applicants did not experience losses. For example, SBA applicants can be denied loan assistance based on their inability to repay, despite potentially having unmet needs. Similarly, HUD officials explained that they consider applications that SBA has denied as a potential indicator of unmet needs.
  - **Including FEMA applicants without verified losses.** Florida included FEMA applicants without verified losses and the U.S. Virgin Islands included units that FEMA did not inspect. Absent verified losses and inspections, they assumed the FEMA applicants had some level of unmet needs. Florida's action plan states that it included FEMA applicants without verified losses, but the plan did not include the number of such applicants or their associated housing needs. The U.S. Virgin Islands' action plan states that it included 3,774 such FEMA applicants in its estimate of damaged homes, but the plan did not include the associated repair costs. According to Florida and

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<sup>46</sup>We were not able to determine how much this assumption increased the needs estimate for Florida because the grantee did not report information on the number of housing units that fell within each of the damage categories.

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Virgin Islands officials, they included these applicants to account for what they determined was underrepresentation of impacted populations. According to HUD officials, grantees typically conduct their own inspections or rely on SBA inspections in an effort to capture more comprehensive damage estimates.

- **Including owner-occupied and rental units with “potential unmet needs.”** Puerto Rico included an estimate of “potential unmet housing needs” to account for owners and renters that did not apply to FEMA and FEMA applicants without verified losses. Absent applications or verified losses, Puerto Rico assumed that nonapplicants and applicants without verified losses had some level of unmet needs. Puerto Rico estimated these potential unmet needs to be approximately \$5.8 billion. HUD officials told us that there were a significant number of FEMA applicants who were denied in Puerto Rico due to an inability to prove property ownership.

In general, HUD officials stated that the methodologies HUD and grantees used to develop unmet needs estimates did not need to be the same. This is because HUD’s estimate of unmet needs was used to allocate funds to grantees and grantees’ estimates were used to target their funding. They also noted that there was more than one way to determine unmet needs and that it was acceptable for grantees to use different methodologies to reflect their local circumstances. Although grantees’ estimates of unmet needs do not affect the amount of CDBG-DR funds that they are allocated, the flexibility grantees have in defining unmet needs increases the importance of HUD’s review of these estimates. As discussed in the next section of this report, HUD’s review of these estimates was limited.

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## HUD’s Review of Grantees’ Initial Steps Was Limited, and It Has Not Developed Monitoring or Workforce Plans

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## HUD Does Not Have Adequate Guidance for Reviewing Financial Processes and Procedures and Assessments of Capacity and Unmet Needs

HUD lacks adequate guidance for its staff to use when determining the adequacy of a grantee's financial processes and procedures and assessments of its capacity and unmet needs.

**Financial processes and procedures.** HUD staff use a checklist to assess a grantee's financial controls, procurement processes, and procedures for prevention of duplication of payments to detect fraud, waste, and abuse of funds (financial certification checklist).<sup>47</sup> The questions on this checklist focus on whether certain information required in the February 2018 *Federal Register* notice was included.<sup>48</sup> For example, as figure 2 shows, the financial certification checklist asks HUD staff to determine whether a grantee has attached its procedures for preventing duplication of benefits and verifying all sources of disaster assistance received. However, it does not ask HUD staff to assess the adequacy of the grantee's approach for verifying all sources of disaster assistance. In addition, the financial certification checklist, which is framed as a series of "yes" or "no" questions, does not include guidance that the HUD reviewer must consider.<sup>49</sup> For example, the certification checklist asks whether the grantee has standards to maintain "adequate control" over all CDBG-DR funds but does not define what it means to maintain adequate control. HUD officials told us that HUD reviewers do assess the quality of grantees' submissions during their reviews. They stated that they request additional information from grantees if they deem the information initially submitted to be incomplete or unclear. However, in the absence of additional guidance for HUD staff, it is unclear how they assess quality on a consistent basis.

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<sup>47</sup>Department of Housing and Urban Development, *Community Development Block Grant–Disaster Recovery (CDBG-DR): P.L. 115-56 Financial Management and Grant Compliance Certification for States and Grantees subject to State CDBG Requirements* (Washington, D.C.: January 2018). According to a HUD official, CPD staff and staff from HUD's Departmental Enforcement Center conduct the reviews of grantees' financial processes and procedures.

<sup>48</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844.

<sup>49</sup>Although the checklist sometimes refers the reviewer to relevant regulations, HUD does not provide detailed guidance for evaluating the adequacy of the information grantees submitted. For example, HUD cites federal procurement regulations in the checklist because grantees are allowed to follow their own procurement policies and procedures if they are "consistent" with federal procurement regulations, but it does not describe the conditions that must be met for grantees' policies and procedures to be considered consistent.

**Figure 2: Selected Questions from the Financial Certification Checklist HUD Used for 2017 CDBG-DR Grantees**

1. FINANCIAL CONTROLS						
a. OMB Audit and Financial Statement						
	Grantee		HUD			
3) Do the single audit, financial statement, or schedule of expenditures indicate that the Grantee has material weaknesses, significant deficiencies, or questioned costs?	<input type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> YES	<input type="checkbox"/> NO		
4) If the Grantee's answer to question 3 is yes, has the Grantee attached documentation showing how the issue(s) have been fully corrected or are being addressed to the satisfaction of HUD?	<input type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> N/A	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> N/A		
d. Financial Controls						
	Grantee		HUD			
Does the Grantee have standards to maintain adequate control over all CDBG-DR funds, and CDBG-DR acquired property and other assets to ensure they are used solely for authorized purposes?	<input type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> YES	<input type="checkbox"/> NO		
PART B. Procurement Process						
	Grantee			HUD		
1. Has the Grantee attached its procurement policies and procedures and does the overall effect of the standards provide for full and open competition?	<input type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> N/A	<input type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> N/A
2. Do the procurement processes uphold the principles of full and open competition with evaluation of cost or price of the product or service and establish procurement policies and procedures for local governments and subrecipients based on full and open competition consistent with the requirements of 24 CFR 570.489(g), and require an evaluation of cost or price of the product or service?	<input type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> N/A	<input type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> N/A
PART C. Procedures for Prevention of Duplication of Benefits						
	Grantee			HUD		
a. Has the Grantee attached its uniform prevention of duplication of benefits procedures?	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	
Do these procedures identify the Grantee's processes for:						
1. Verifying all sources of disaster assistance received by the Grantee or applicant prior to the award of CDBG-DR funds to the applicant, as applicable?	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	
2. Determining the Grantee's or an applicant's unmet need(s) before committing funds or awarding assistance?	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	
3. Ensuring beneficiaries agree to repay any duplicative assistance if they later receive other duplicative disaster assistance for the same purpose?	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	
PART D. Procedures to Determine Timely Expenditures						
	Grantee			HUD		
c. Do the procedures indicate how the Grantee will monitor expenditures of its subrecipients?	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	
PART F. Procedures to Detect Fraud, Waste, and Abuse of Funds						
	Grantee			HUD		
a. Has the Grantee attached procedures that indicate how the Grantee will verify the accuracy of information provided by applicants?	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	
b. Has the Grantee provided a monitoring policy that indicates:						
1. How and why monitoring is conducted;	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	
2. The frequency of monitoring; and	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	
3. Which items are monitored?	<input type="checkbox"/> YES	<input type="checkbox"/> NO		<input type="checkbox"/> YES	<input type="checkbox"/> NO	

**Legend:** CDBG-DR = Community Development Block Grant Disaster Recovery; HUD = Department of Housing and Urban Development; OMB = Office of Management and Budget

Source: Department of Housing and Urban Development. | GAO-19-232

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**Capacity assessments.** HUD’s checklist for reviewing management capacity (capacity checklist) assesses whether the grantee included certain information required in the February 2018 *Federal Register* notice.<sup>50</sup> For example, the capacity checklist asks whether a grantee provided a timeline for addressing the gaps it identified in its capacity assessment. However, it does not require the reviewer to evaluate the adequacy of the assessment or the timeline (see fig. 3). Similarly, the capacity checklist asks whether the grantee planned to designate personnel for program management, procurement, monitoring, and other functions but does not require the reviewer to assess the adequacy of the number of personnel. One question asks whether the personnel will be “in proportion to applicant population” but does not cite the required proportion. As discussed above, HUD officials told us that HUD reviewers do assess the quality of grantees’ submissions during their reviews, but in the absence of additional guidance for staff, it was unclear how they determine that documents are adequate.

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<sup>50</sup>Department of Housing and Urban Development, *2017 Events Management Capacity, Initial Action Plan, and AP Certifications Checklists*, accessed April 23, 2018, <https://www.hudexchange.info/resource/5673/2017-events-management-capacity-initial-action-plan-and-ap-certifications-checklists/>. February 2018 *Federal Register* notice, 83 Fed. Reg. 5844.



**Figure 3: Selected Questions from the Capacity Checklist HUD Used for 2017 CDBG-DR Grantees**

Evaluation of Risk and Management Capacity (CDBG-DR Grants under Public Law 115-56)	
Each State receiving a direct allocation in the Notice must submit an Implementation Plan that contains the following information that described the grantee's capacity to carry out the recovery (all information regarding the Implementation Plan is outlined in 83 FR 5848-5849):	
Question	Answer
<b>1. Application Status.</b>	
a. Has the Grantee attached procedures describing how it will inform applicants of their status in the recovery application process?	
b. Do the procedures indicate the Grantee has methods for communicating the status of applications (i.e. via one of the following: Website, Phone, Case Manager, Letter)?	
c. Does the Grantee have procedures to ensure the accessibility and privacy of individual applicant information?	
d. Do the procedures indicate which personnel are responsible for the task?	
<b>2. Capacity. Does the Grantee's Implementation Plan include the following:</b>	
a. Conducted an assessment of its capacity to carry out recovery efforts?	
b. Timeline with milestones describing when and how the Grantee will address all capacity gaps identified?	
c. List of any open CDBG-DR findings and an update on the corrective actions underway to address each finding? (HUD may include additional requirements in the grantee's grant terms and conditions in order to prevent similar findings for this grant.)	
<b>3. Staffing. Has the Grantee's Implementation Plan identified personnel that will be in place for the following functions:</b>	
a. Case management, in proportion to applicant population?	
b. Program managers for housing, economic revitalization, and infrastructure programs?	
c. Staff with experience in housing, economic revitalization, and infrastructure?	
d. Procurement/ contract management?	
e. Environmental compliance and compliance with applicable requirements?	
f. Section 3 and FHEO compliance?	
g. Monitoring and quality assurance?	
h. Financial management?	
i. Independent audit staff (reporting directly to chief elected official, executive officer, or governing body)?	

**Legend:** CDBG-DR = Community Development Block Grant Disaster Recovery; FHEO = Fair Housing and Equal Opportunity; HUD = Department of Housing and Urban Development  
 Source: Department of Housing and Urban Development. | GAO-19-232

Note: In completed checklists that we reviewed, HUD staff responded "yes" in the answer column.

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**Unmet needs assessments.** HUD staff also use a checklist to assess the grantees' action plans, including their assessments of unmet needs (see fig. 4).<sup>51</sup> The questions ask the reviewer to determine whether the needs assessment covers housing, infrastructure, and economic revitalization and to estimate the portion of those three areas to be funded from other sources, as required in the February 2018 *Federal Register* notice.<sup>52</sup> However, the reviewer is not required to evaluate the reliability of the grantees' assessments or estimates, and HUD does not provide additional guidance for staff to help assess the reliability of the information provided.

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<sup>51</sup>Department of Housing and Urban Development, *2017 Events Management Capacity, Initial Action Plan, and AP Certifications Checklists*.

<sup>52</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844.

**Figure 4: Selected Questions from the Action Plan Checklist HUD Used to Review Needs Assessments of 2017 Community Development Block Grant Disaster Recovery Grantees**

Criteria:		Yes (provide page #)	No (provide justification)
<b>A. General Action Plan Requirements</b>			
Does the Action Plan for disaster recovery identify the proposed use(s) of grantee's allocation, including criteria for eligibility, how the uses address long-term recovery, restoration of housing and infrastructure and economic revitalization in the most impacted and distressed areas? Specifically:			
(1)	Needs Assessment	An impact and unmet needs assessment, as described in the Notice (83 FR 5849):	
	(a) Does the assessment evaluate the three core aspects of recovery – housing, infrastructure, and economic revitalization?		
	(b) Does the assessment of housing needs address interim and permanent; owner and rental; single family and multifamily; affordable, and market rate; and housing to meet the needs of pre-disaster homeless persons?		
	(c) Does the assessment take into account the various forms of assistance available to, or likely to be available to, affected communities and individuals to identify needs not addressed by other sources?		
	(d) Does the grantee produce an estimate of unmet need by estimating the portion of need likely to be addressed by insurance proceeds, other federal assistance, or any other funding source by using the most recent available data? Did the grantee cite data sources?		
	(e) Does the grantee assess whether public services are necessary to complement activities intended to address housing and economic revitalization needs? Does the grantee address how those services are to be made accessible to individuals having wide-ranging disabilities including mobility, sensory, developmental, emotional, and other impairments?		
	(f) Does the grantee describe how the planning activities will benefit the HUD-identified "most impacted and distressed" (MID) areas?		
	(g) Are impacts described by type at the lowest geographical level practicable (e.g., county level, zip code, or lower if available), using the most recent available data ?		
	(h) Does the assessment take into account the costs of incorporating mitigation and resiliency measures to protect against future hazards?		

Source: Department of Housing and Urban Development (HUD). | GAO-19-232

HUD officials said they have other documentation that supplements the checklists. However, we found that documentation lacked sufficient information for assessing the submissions. For example:

- February 2018 Federal Register notice.** According to HUD officials, the notice is the primary source of guidance for HUD reviewers.<sup>53</sup> They stated that the notice defines “proficient financial processes and

<sup>53</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844.

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procedures.” However, the February 2018 notice states that grantees must submit certain audits, financial reports, and their financial standards but does not describe how HUD reviewers should assess the quality of those financial standards. In addition, the vague language in the checklist often mirrors the February 2018 notice. For example, neither document tells staff how to determine whether “the overall effect of the [grantee’s procurement] standards provide for full and open competition.”

- **Regulations for the traditional CDBG program.** According to HUD officials, reviewers can consult existing federal regulations governing the development and review of plans required under the traditional CDBG program when reviewing grantees’ action plans, including unmet needs assessments.<sup>54</sup> However, both the February 2018 and August 2018 *Federal Register* notices waive the requirement for an action plan under the CDBG regulation. The notices instead require CDBG-DR grantees to submit an action plan for disaster recovery specifically that includes an unmet needs assessment.

Another reason HUD cited for not having additional guidance is the reviewers’ years of professional experience. A senior HUD official said the staff members who reviewed Florida and Texas’ submissions were senior CPD staff who had been CDBG-DR grant managers since at least 2014. The same senior official, a CPD specialist since 1998, told us that she reviewed the submissions from Puerto Rico and the U.S. Virgin Islands. However, experienced staff may leave their positions, while the guidance for reviewing grantees’ submissions would remain.

The acts appropriating CDBG-DR funds for the 2017 disasters require HUD to certify that a grantee has proficient financial controls, processes,

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<sup>54</sup>Grantees that receive funding under any of HUD’s CPD formula grant programs, including CDBG, are required to submit to HUD a consolidated plan and annual action plan. The consolidated plan is a plan of 3 to 5 years in length, which describes community needs, resources, priorities, and proposed activities to be undertaken under these programs. The consolidated plan is carried out through annual action plans, which provide a concise summary of the actions, activities, and the specific federal and nonfederal resources that will be used each year to address the priority needs and specific goals identified by the consolidated plan. According to a HUD official, CPD uses 24 CFR 91 to review these plans.

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and procedures.<sup>55</sup> In addition, both acts require grantees to submit action plans to the HUD Secretary. The February 2018 *Federal Register* notice requires that grantees demonstrate that they have capacity to effectively manage the CDBG-DR funds and that their action plans include an assessment of unmet needs.<sup>56</sup> Further, federal internal control standards state that management should use quality information to achieve the entity's objectives.<sup>57</sup> For example, management is to obtain relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Federal internal control standards also state that management should (1) internally communicate the necessary quality information to achieve the entity's objectives and (2) establish and operate monitoring activities to monitor the internal control system and evaluate the results.

As discussed in the last section of this report, prior grantees' lack of adequate financial processes and procedures and capacity led to challenges, such as improper payments and the need to acquire additional expertise. Further, all four grantees' initial assessments showed that their CDBG-DR allocations will not meet their unmet needs.<sup>58</sup> Having reliable estimates of unmet needs that will not be met with the appropriated \$35.4 billion is important because Congress could use these estimates to determine if further appropriations are necessary. Further, grantees need accurate information to appropriately address unmet needs. Without additional guidance for HUD staff to use in assessing the quality of grantees' submissions, HUD cannot provide reasonable assurance that its reviews of these submissions are thorough and consistent.

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<sup>55</sup>Pub. L. No. 115-56 and Pub. L. No. 115-123. Specifically, the acts require the HUD Secretary to certify that a grantee has in place "proficient financial controls and procurement processes and has established adequate procedures to prevent any duplication of benefits...to ensure timely expenditure of funds, to maintain comprehensive websites regarding all disaster recovery activities assisted with these funds, and to detect and prevent waste, fraud, and abuse of funds."

<sup>56</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5848.

<sup>57</sup>[GAO-14-704G](#).

<sup>58</sup>According to their initial action plans, Florida's estimated total unmet needs were \$10.9 billion; Puerto Rico's were \$44.2 billion; Texas' were \$98.7 billion; and the U.S. Virgin Islands' were \$7.6 billion. Grantees likely will update these figures as more data become available.

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## HUD Lacks Documentation Supporting Its Conclusion That Grantees' Submissions Were Sufficient

In their reviews of the 2017 grantees' financial processes and procedures and assessments of capacity and unmet needs, HUD's reviewers did not document their conclusions. According to a HUD official, the final completed checklists are the official records of the agency's certification of grantees' financial processes and procedures and its review of capacity and unmet needs assessments. However, the checklists do not require a description of the basis for answering "yes" to a question. The checklists require HUD reviewers to describe the basis for their conclusion for "no" answers only. As a result, the final checklists that we reviewed, which showed a "yes" to each question, did not explain how the reviewer concluded that grantees' submissions were sufficient.

A HUD official told us that outside of the official administrative record, there is documentation on the agency's communication with grantees. However, because this documentation was not readily available for all four grantees, HUD provided examples of written feedback given to one grantee. Our review of this documentation showed variation in the extent to which the reviewer requested information about the quality of the information provided. In written feedback that HUD provided to the grantee on its capacity assessment, the HUD reviewer asked for more comprehensive analysis of staffing needs and to include a rationale for the number of staff to be assigned to each function. Yet, other feedback HUD provided focused on whether certain information was included rather than on the quality of the information. For example, when reviewing the grantee's financial processes and procedures, the reviewer pointed out that the grantee had not shown that it had addressed prior audit findings. In another instance, the reviewer asked the grantee to include additional information in the section of its action plan on unmet needs, but did not focus on the grantee's methodology.

According to a HUD official, this documentation was not readily available for each grantee because it is not part of the official administrative record. Even if readily available, such documentation likely would not substantiate HUD's conclusions that grantees' submissions and estimates were sufficient. CPD's monitoring handbook states that staff must document the basis for their conclusions during a monitoring review because "monitoring conclusions must be clear to persons unfamiliar with the participant, program, or technical area."<sup>59</sup> In addition, federal internal

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<sup>59</sup>Department of Housing and Urban Development, *Community Planning and Development Monitoring Handbook* (Washington, D.C.: February 2017).

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control standards require management to design control activities to achieve objectives in response to risk.<sup>60</sup> One example of a control activity is clearly documenting transactions and other significant events in a manner that allows the documentation to be readily available for examination.

According to a HUD official, documentation is limited and not readily available because CPD staff have many responsibilities in addition to the review of grantees' submissions, such as assisting in the monitoring of prior CDBG-DR grants. However, it is important that HUD prioritize the documentation of its reviews. Without documenting the basis for its conclusions when reviewing grantees' submissions, stakeholders and decision makers lack information on why HUD concluded that grantees' financial processes and procedures and capacity and unmet needs assessments were adequate. HUD also misses an opportunity to leverage this information later to mitigate risk and inform its monitoring of grantees.

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## HUD Does Not Have a Comprehensive Monitoring Plan for the 2017 CDBG-DR Grants

HUD determined that the 2017 CDBG-DR grants posed high risk due to the size of the grants, but did not have a comprehensive plan to monitor these grants. First, HUD had not identified any unique risk factors associated with the 2017 grants that required additional attention. For example, HUD had not analyzed the potential risk of awarding a large grant to an entity that had little or no experience administering CDBG-DR funds. The agency also had not used any potential risks identified during its reviews of grantees' financial processes and capacity assessments to inform its monitoring. Second, although HUD had plans to conduct onsite monitoring, it had not defined the scope of this monitoring. HUD provided a monitoring schedule that showed that the agency intended to conduct two monitoring visits and two technical assistance visits each to Florida, Texas, and the U.S. Virgin Islands in fiscal year 2019.<sup>61</sup> Although the schedule shows only one monitoring visit for Puerto Rico, HUD officials told us that they also plan to conduct two monitoring visits and two

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<sup>60</sup>[GAO-14-704G](#).

<sup>61</sup>During monitoring visits, HUD staff review files and interview grantee staff, contractors, and subrecipients to evaluate the grantee's overall management of CDBG-DR grants; implementation of infrastructure, economic development, and housing activities; and financial management. During technical assistance visits, HUD staff and contractors answer grantees' questions about policy and advise grantees on reporting systems and program implementation.

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technical assistance visits to Puerto Rico. Regarding the scope of monitoring visits, HUD officials said that staff consider where the CDBG-DR grantee is in the recovery process when identifying areas to be reviewed during monitoring. For example, they said that they tend to focus on grantees' efforts to hire staff and develop policies and procedures during the first year and on grantees' implementation of specific activities in the second year. Although HUD had these tentative plans for the early years of the grants, the agency had not documented them.

According to HUD officials, as of November 2018 HUD had not developed a comprehensive monitoring plan because it had not yet completed the annual risk analysis process that it uses to determine the extent of monitoring for programs such as CDBG and CDBG-DR.<sup>62</sup> According to HUD officials, this process is undertaken during the first quarter of each fiscal year. HUD guidance states that the purpose of this analysis is to provide the information needed for HUD to effectively target its resources to grantees that pose the greatest risk to the integrity of CDBG-DR, including identification of the program areas to be covered and the depth of the review.<sup>63</sup> In comments on the draft report, HUD stated that it had completed its risk analysis and updated its monitoring schedule to include all the grantees it planned to visit in fiscal year 2019. HUD also stated that it had begun identifying monitoring strategies for all monitoring reviews that would occur from March 2019 through May 2019 and would develop the remaining strategies after the initial monitoring reviews.

However, the risk analysis is of limited usefulness for new CDBG-DR grants because, based on HUD guidance, the risk analysis assumes that the grant has been active for several years. For example, a reviewer is to select the high-risk category if, within the past 3 grant years, the grantee

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<sup>62</sup>During the risk analysis for CDBG-DR, CPD staff are to evaluate grants based on three factors: grant management, financial management, and services and satisfaction. Staff total the scores from each factor and assign grantees a final score on a 100-point scale. HUD considers grantees that receive a score of 51 or greater to be high risk; those with a score of 30 to 50 to be medium risk; and those with less than 30 to be low risk.

<sup>63</sup>Department of Housing and Urban Development, *Implementing Risk Analyses for Monitoring Community Planning and Development Grant Programs in FY 2015 and 2016*, CPD-14-04 (Washington, D.C.: Mar. 1, 2014). According to HUD, this notice was still effective and applicable to fiscal year 2019. A reviewer can conduct an in-depth or limited review. An in-depth review is a detailed compliance review that can include a review of specific activities and known high-risk areas or critical functions. A limited review is a compliance review reduced in scope and size.



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had received two or more findings that are open, overdue, and unresolved; sanctions have been imposed on the grantee; or the grantee had not been monitored—all considerations that currently are moot for the 2017 grantees. Further, the risk analysis does not formally incorporate information HUD gleaned from its reviews of grantees' financial processes and capacity assessments. For example, the risk analysis worksheet does not include questions about the extent to which HUD's review of a grantee's procurement processes and procedures raised any concerns.

According to the February 2018 *Federal Register* notice, HUD will undertake an annual risk analysis and conduct on-site monitoring.<sup>64</sup> Further, federal internal control standards state that management should establish and operate monitoring activities and evaluate results.<sup>65</sup> The standards suggest that as part of monitoring, management identify changes that have occurred or are needed because of changes in the entity or environment. However, HUD does not have a monitoring plan that identifies the specific risk factors for each grantee and outlines the scope of its monitoring. A comprehensive monitoring plan would help HUD ensure that its oversight of grantees' compliance with grant requirements focused on grantees' areas of greatest risk.

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### HUD Has Not Conducted Workforce Planning to Determine the Staff It Needs to Oversee CDBG-DR

HUD has not conducted workforce planning to determine the number of staff it needs to monitor the large 2017 CDBG-DR grants and other outstanding grants. The growth in the number and dollar amount of CDBG-DR grants has created workforce challenges for HUD. The more than \$35 billion in CDBG-DR funds Congress appropriated for the 2017 hurricanes was almost as much as HUD's entire budget for fiscal year 2018. In addition, Congress appropriated more CDBG-DR funds to help with recovery from the 2018 Hurricanes Florence and Michael, and will likely appropriate more.<sup>66</sup> As of October 2018, CPD's Disaster Recovery

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<sup>64</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5846.

<sup>65</sup>[GAO-14-704G](#).

<sup>66</sup>The Supplemental Appropriations for Disaster Relief Act, 2018 appropriated approximately \$1.7 billion in CDBG-DR funds for major disasters that occurred in calendar year 2018. Pub. L. No. 115-254, Division I (2018). Hurricane Florence made landfall as a Category 1 hurricane on September 14, 2018. It was declared a major disaster in North Carolina, South Carolina, and Virginia. Hurricane Michael made landfall as a Category 4 hurricane on October 10, 2018. It was declared a major disaster in Alabama, Florida, and Georgia.

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and Special Issues Division had 24 permanent full-time staff. However, division officials told us that staffing had not increased at a rate commensurate with the increase in CDBG-DR grants due to budget constraints.<sup>67</sup> Although the 2017 grants would be their priority for monitoring, they said that they still had a responsibility to oversee other grants.

HUD officials told us that they planned to hire additional staff for the Disaster Recovery and Special Issues Division but that they had not finalized their hiring plans. In October 2018, a CPD official told us that in fiscal year 2018 HUD approved the hiring of 17 limited-term hires to be paid with supplemental disaster funds appropriated for HUD salaries and expenses.<sup>68</sup> Division officials also told us that HUD had approved two permanent hires in fiscal year 2018, a financial analyst and a team leader for oversight of the Puerto Rico grantee. For fiscal year 2019, the CPD official said HUD was considering hiring five additional permanent staff for the division but that if approved, the division had estimated that it would need five more staff. In November 2018, division officials said that the number of additional staff we were told had been approved for fiscal year 2018 seemed high and that as of November 2018, HUD had not finalized its hiring plans for the division. In comments on the draft report, HUD stated that the division had developed a staffing plan to address long-term oversight and management of the CDBG-DR portfolio and, as of March 1, 2019, expected to fill 14 positions over the next 3 months. In addition, it stated that the agency had identified an approach to secure 20 additional positions to support CDBG-DR, and expected the agency's financial and human capital officials to approve it in the next few weeks.

Federal internal control standards state that management should design control activities, including management of human capital, to achieve

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<sup>67</sup>Others have cited capacity challenges at HUD. For example, an Urban Institute testimony on CDBG-DR described the importance of HUD staff providing direct support to grantees, and noted that although such efforts had improved in the last 5 years, HUD staff with extensive expertise with CDBG-DR were often overextended. See Carlos Martin, Senior Fellow, Urban Institute, *The Evidence Base on How CDBG-DR Works for State and Local Stakeholders*, testimony before the House Financial Services Subcommittee on Oversight and Investigations, 115th Cong., 2<sup>nd</sup> sess., May 17, 2018.

<sup>68</sup>The Supplemental Appropriations for Disaster Relief Requirements Act, 2017, Pub. L. No. 115-56, 131 Stat. 1129, 1138 (2017) and the Further Additional Supplemental Appropriations for Disaster Relief Act, 2018, Pub. L. No. 115-123, 132 Stat. 64, 106 (2018), each appropriated \$10 million for HUD administrative costs.

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objectives and respond to risks.<sup>69</sup> Management is to continually assess the knowledge, skills, and ability needs of the entity so that the entity is able to obtain a workforce that has the required knowledge, skills, and abilities to achieve organizational goals. In previous work on human capital, we identified key principles for effective strategic workforce planning, including determining the critical skills and competencies needed to achieve current and future programmatic results and developing strategies that are tailored to address gaps in number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.<sup>70</sup>

However, as of March 1, 2019, HUD had not hired any additional staff; provided documentation showing that the number of staff it planned to hire would be sufficient to oversee current CDBG-DR funds and funds appropriated for Hurricanes Florence and Michael; or determined that staff have the needed knowledge, skills, or abilities. HUD did not have this information because it had not conducted strategic workforce planning. According to HUD officials, they were in the process of evaluating the division's organizational structure. Without strategic workforce planning that determines if the number of staff HUD plans to hire is sufficient to oversee the growing number of CDBG-DR grants, identifies the critical skills and competencies needed, and includes strategies to address any gaps, HUD will not be able to identify the staffing resources necessary to oversee CDBG-DR grants.

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<sup>69</sup>[GAO-14-704G](#).

<sup>70</sup>[GAO-04-39](#).

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## HUD and CDBG-DR Grantees Face Challenges with Program Design and Administration

Due to the lack of permanent statutory authority for CDBG-DR, CDBG-DR appropriations require HUD to customize grantee requirements for each disaster. The ad hoc nature of CDBG-DR has created challenges for CDBG-DR grantees, such as lags in accessing funding and varying requirements. CDBG-DR grantees have also experienced administrative challenges not related to the lack of permanent statutory authority, such as challenges with grantee capacity, procurement, and improper payments.<sup>71</sup>

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## Lack of Permanent Statutory Authority Has Led to Challenges Such as Lags in Accessing Funding and Varying Requirements

Although Congress has used CDBG to meet unmet disaster recovery needs since 1993, it has not established permanent statutory authority for CDBG-DR. Because of its flexibility, Congress has relied on CDBG and provided numerous supplemental appropriations for more than \$86 billion in CDBG-DR funds to HUD. When Congress appropriates CDBG-DR funds, it also grants HUD broad authority to waive CDBG program requirements and establish alternative requirements for CDBG-DR funds via *Federal Register* notices.<sup>72</sup> For example, in consecutive notices for disasters that occurred from 2001-2016, HUD waived the requirement that 70 percent of CDBG funds received by the state over a 1- to 3-year period be for activities that benefit persons of low and moderate income.<sup>73</sup>

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<sup>71</sup>Under the Improper Payments Information Act of 2002, as amended, an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Improper payments include duplicate payments.

<sup>72</sup>The HUD Secretary may provide waivers or specific alternative requirements if such waiver is not inconsistent with the overall purpose of Title I of the Housing and Community Development Act of 1974. The Secretary may not waive requirements related to fair housing, nondiscrimination, labor standards, and the environment. The appropriations for the 2017 disasters require the HUD Secretary to publish via notice in the *Federal Register* any waiver, or alternative requirement, to any statute or regulation that the Secretary administers pursuant to Title I of the Housing and Community Development Act of 1974 no later than 5 days before the effective date of such waiver or alternative requirement.

<sup>73</sup>HUD did not waive the 70-percent requirement for the 2017 disasters but allowed grantees to request a waiver. A CDBG-DR grantee may seek to reduce the overall benefit requirement below 70 percent of the total grant, but must submit a justification that (1) identifies the planned activities that meet the needs of its low- and moderate-income population; (2) describes the proposed activities that will be affected by the alternative requirement, including their proposed locations and roles in the grantee's long-term disaster recovery plan; (3) describes how the activities identified prevent the grantee from meeting the 70-percent requirement; and (4) demonstrates that low- and moderate-income persons' disaster related needs have been met sufficiently and that the needs of non-low and moderate-income persons or areas are disproportionately greater, and that the jurisdiction lacks other resources to serve them.

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For disasters from 2004-2017, it issued a waiver permitting states to directly administer CDBG-DR funds, rather than distributing all funds to local governments as is required under the traditional CDBG program.<sup>74</sup> Also, since 2001 HUD has waived the requirement for CDBG action plans and instead required grantees to submit to HUD an action plan for disaster recovery.

Because CDBG-DR is not a permanently authorized program, HUD officials stated that they have not established permanent regulations. Legislation was proposed in the 115th Congress that would have permanently authorized the CDBG-DR program, but was not enacted.<sup>75</sup> According to HUD officials, they provided technical drafting assistance on this bill. As of February 2019, Congress had not permanently authorized CDBG-DR or any other program to meet unmet disaster needs.

Unlike CDBG-DR, other federal disaster assistance programs, such as those administered by FEMA and SBA, are permanently authorized. In 1988, the Stafford Act created permanent statutory authority for much of the disaster assistance system in place today. Under this act, FEMA has multiple mechanisms for providing assistance. For example, FEMA's Individual Assistance program provides various forms of help following a disaster, such as financial assistance for housing, unemployment, and crisis counseling assistance. In the late 1950s, the Small Business Act permanently authorized the SBA Disaster Loan Program, which provides low-interest direct loans to businesses, homeowners, and renters to repair or replace property.

A recent report on climate change supports a growing need for a permanent program to address unmet disaster needs. According to a 2018 report from the U.S. Global Change Research Program, the frequency and intensity of extreme weather and climate-related events are expected to increase.<sup>76</sup> The report noted that as hurricane damage can be attributed to warmer atmosphere and warmer, higher seas, there

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<sup>74</sup>Through the waiver, CDBG-DR state grantees carry out eligible activities directly, through procurement contracts, or through assistance provided under agreements with subrecipients.

<sup>75</sup>Reforming Disaster Recovery Act of 2018, H.R. 4557, 115<sup>th</sup> Cong. (2018).

<sup>76</sup>U.S. Global Change Research Program, *Impacts, Risks, and Adaptation in the United States: Fourth National Climate Assessment, Volume II* (Washington, D.C.: 2018).

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is a need to rebuild to more resilient infrastructure and develop new frameworks for disaster recovery.

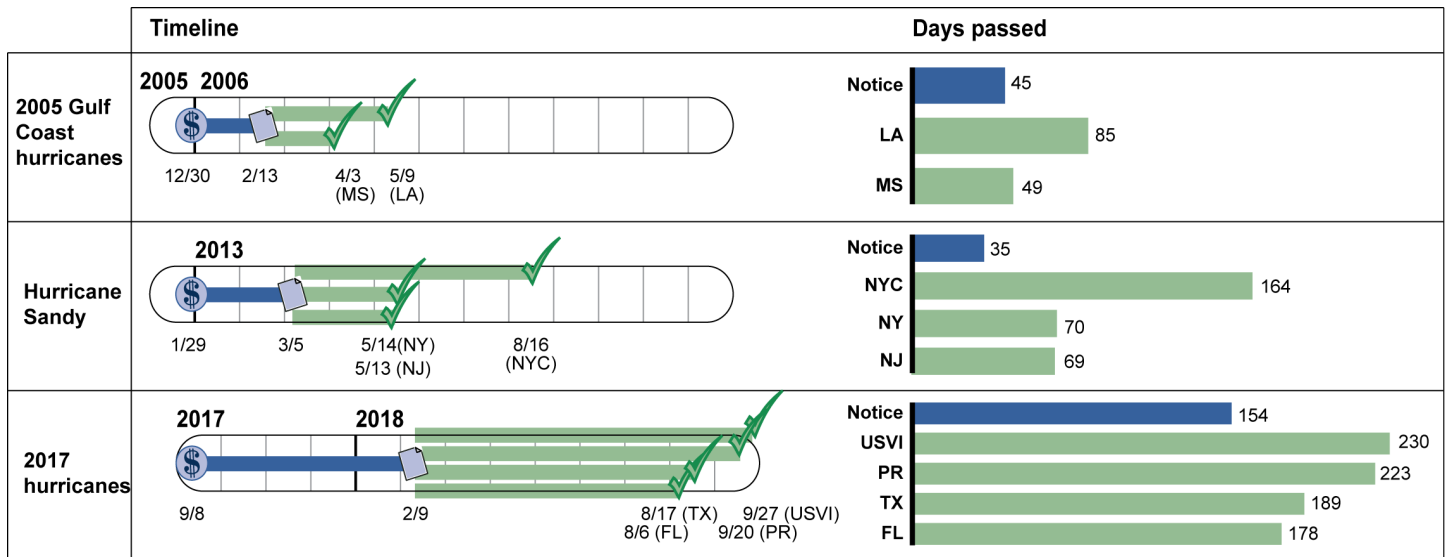
In part because Congress has not established permanent statutory authority for CDBG-DR or some other program to address unmet needs, GAO, the HUD OIG, and some of the 2017 grantees have cited a number of challenges. These include lags in accessing funding and varying requirements.

**Lags in accessing funding.** For earlier hurricanes, it took at least a month for HUD to issue the *Federal Register* notices that outlined the CDBG-DR requirements for each disaster. For the 2017 disasters, it took longer. As noted previously, these notices lay out the steps that grantees must take before they can enter into grant agreements with HUD and begin expending funds. As shown in figure 5, it took 45 days for HUD to issue the requisite *Federal Register* notice after the first appropriation for the 2005 Gulf Coast hurricanes, 35 days after the first appropriation for Hurricane Sandy, and 154 days (or 5 months) after the first appropriation for the 2017 hurricanes. According to HUD officials, they delayed issuance of the first notice for the 2017 hurricanes because they expected a second appropriation and wanted to allocate those funds in the same notice.<sup>77</sup> After HUD issued the *Federal Register* notices, it generally took the grantees months to complete all of the required steps to enter into grant agreements. For example, it took each of the 2017 grantees over 6 months to execute grant agreements with HUD.

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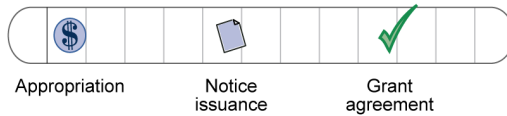
<sup>77</sup>Because the second appropriation took longer than HUD expected, the February 2018 notice allocated only the first appropriation.

**Figure 5: Time It Took the Department of Housing and Urban Development to Issue *Federal Register* Notices and Enter Into Grant Agreements for Gulf Coast Hurricanes, Hurricane Sandy, and 2017 Hurricanes**



**Legend:**

- FL Florida
- LA Louisiana
- MS Mississippi
- NJ New Jersey
- NY New York
- NYC New York City
- PR Puerto Rico
- TX Texas
- USVI U.S. Virgin Islands



- Days between appropriation and notice issuance
- Days between notice and grant agreement

Source: GAO analysis of Department of Housing and Urban Development data. | GAO-19-232

Two 2017 grantees that we interviewed suggested that the CDBG-DR process could be shortened if there were an established set of rules for states to follow instead of waiting months for a new *Federal Register* notice to be published for each allocation. One grantee told us that CDBG-DR should be codified as a formal program with basic rules in place so that grantees do not have to wait months for a notice to be published before they begin planning. In a May 2018 hearing on CDBG-DR, a 2017 grantee testified that disaster recovery could be greatly expedited if HUD had written regulations that governed CDBG-DR allocations.<sup>78</sup> The official stated that states would not have to wait for the

<sup>78</sup>Heather Lagrone, Deputy Director for Community Development and Revitalization, Texas General Land Office, testimony before the House Financial Services Subcommittee on Oversight and Investigations, 115th Cong., 2<sup>nd</sup> sess., May 17, 2018.

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*Federal Register* notice to be published to begin designing activities and developing action plans.

Similarly, for our January 2010 report on the Gulf Coast hurricanes, HUD officials told us that a permanently authorized CDBG-DR program would allow HUD to issue permanent regulations and require less need for *Federal Register* notices and the use of waivers after each disaster, thereby allowing funds to be available for providing assistance sooner.<sup>79</sup> As part of our current review, HUD officials reiterated that a permanently authorized CDBG-DR program would allow HUD to issue permanent regulations. They stressed that for a permanently authorized CDBG-DR program to be effective, Congress would need to provide HUD the flexibility to waive traditional CDBG statutory requirements and adopt alternative requirements to help address recovery needs.

**Varying requirements.** CDBG-DR grant requirements vary from notice to notice. In a July 2018 report, the HUD OIG found that as of September 2017, HUD used 61 notices to oversee 112 active disaster recovery grants totaling more than \$47.4 billion, and would issue additional notices for funding provided in 2017 and 2018.<sup>80</sup> The HUD OIG also noted that as of February 2017, Louisiana had seven open grants and had to follow 45 *Federal Register* notices, and that Texas had 6 open grants and had to follow 48 *Federal Register* notices. Officials from one of the 2017 grantees we interviewed said it was challenging to manage seven different CDBG-DR grants, each with different rules. As an example, they noted that 2015 grant funds cannot be used on levees, while funds from other years can be. To help manage these different requirements, they stated that they must tie each grant to the relevant public law in their grant management system. To further ensure compliance with the various

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<sup>79</sup>As discussed in more detail later in this section, our January 2010 report focused on how federal funds for housing recovery had been allocated for the repair of homeowner and rental housing units. We found that when attempting to use the disaster programs we reviewed, including CDBG-DR, both homeowners and rental property owners encountered delays in funding availability and other challenges that had likely contributed to the slow pace of recovery in some areas and fewer affordable units for renters. As a result, we recommended that Congress consider providing more specific direction regarding the distribution of disaster-related CDBG assistance that states are to provide for homeowners and renters. GAO, *Disaster Assistance: Federal Assistance for Permanent Housing Primarily Benefited Homeowners; Opportunities Exist to Better Target Rental Housing Needs*, [GAO-10-17](#) (Washington, D.C.: Jan. 14, 2010).

<sup>80</sup>Department of Housing and Urban Development, Office of Inspector General, *HUD's Office of Block Grant Assistance Had Not Codified the Community Development Block Grant Disaster Recovery Program*, 2018-FW-0002 (Fort Worth, TX: July 23, 2018).



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notices, their legal department prepares a new template for the agreement that the states sign with subrecipients for each public law. Officials from another 2017 grantee stated that it was difficult to build an infrastructure for the management of current and future CDBG-DR funds, as the rules often could be different for each allocation. They also noted that variations across different allocations can make it more difficult for grantees to manage and comply with differing requirements. According to HUD officials, the requirements have varied due to differences in appropriations language and policies across administrations and changes made in response to input from the HUD OIG.

In addition, the July 2018 HUD OIG report identified 59 duplicative or similar requirements in most of the notices that could benefit from a permanent framework.<sup>81</sup> For example, the following rules or waivers were consistently repeated: allowing states to directly administer grants and carry out eligible activities, requiring grantees to submit an action plan, requiring grantees to review for duplication of benefits, allowing states to use subrecipients, and allowing flood buyouts.<sup>82</sup> The HUD OIG recommended that the Office of Block Grant Assistance work with its Office of General Counsel to codify CDBG-DR in regulations. HUD disagreed with this recommendation, stating that it lacked statutory authority to create a permanent CDBG-DR program.<sup>83</sup> In commenting on the report, HUD acknowledged that the current process of changing appropriations requirements, which results in waivers and alternative requirements, can be challenging. It further stated that congressional direction would be needed for a more standard, regulation-governed program.

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<sup>81</sup>Department of Housing and Urban Development, Office of Inspector General, 2018-FW-0002.

<sup>82</sup>Flood buyouts refer to the acquisition of property located in a floodway or floodplain that is intended to reduce risk from future flooding. Unlike traditional CDBG, grantees may use CDBG-DR funds for a buyout program. The purpose is to encourage revitalization through uses compatible with open space, recreational, and natural floodplain functions; other ecosystem restoration; or wetlands management practices.

<sup>83</sup>HUD further stated that CDBG-DR funds are provided under a series of constantly changing appropriation statutes, and it could not publish regulations that rely on statutory waivers and alternative requirements as it has not been permanently granted authority from Congress to do so.

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Further, we and others have cited four additional challenges that could be addressed in a statute permanently authorizing CDBG-DR or another disaster assistance program for unmet needs.

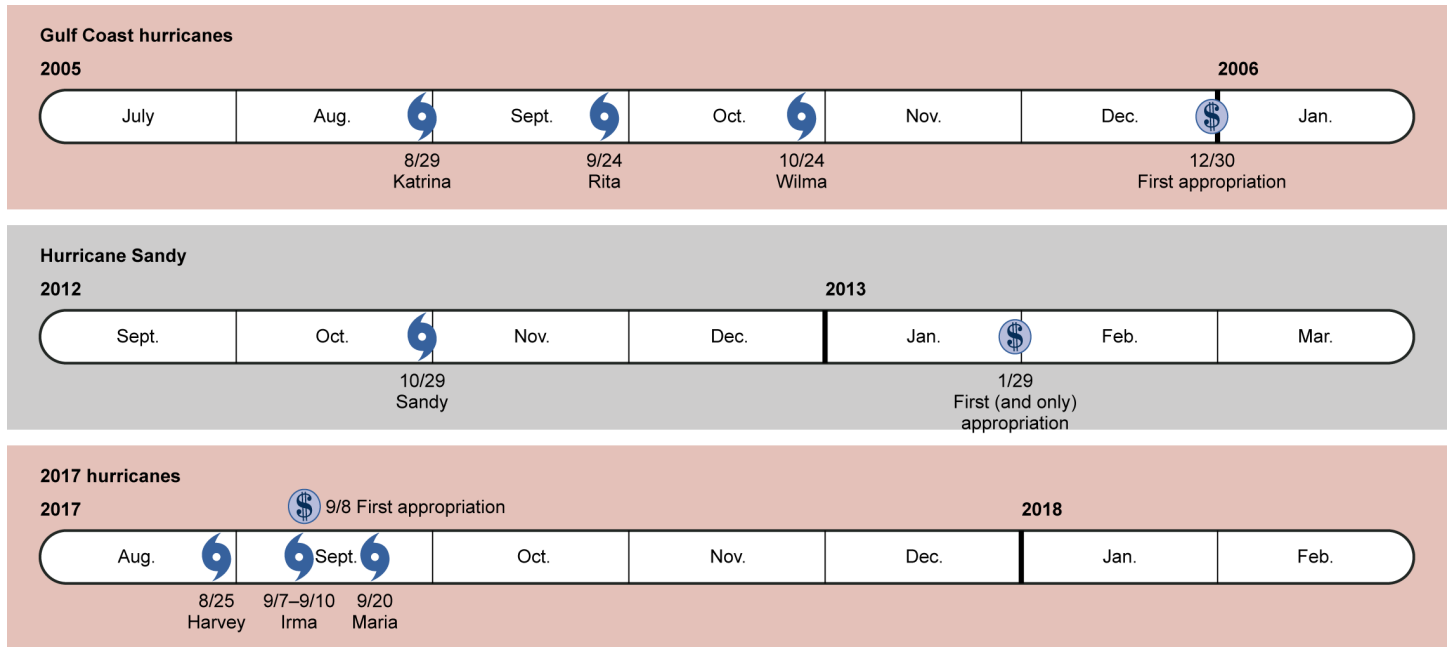
**Lag between a disaster and appropriation of CDBG-DR funds.** In a July 2015 report on Hurricane Sandy, we found that the unpredictable timing of the appropriation for CDBG-DR challenged grantees' recovery planning.<sup>84</sup> As shown in figure 6, the first CDBG-DR supplemental appropriation for the Gulf Coast hurricanes was enacted 4 months after the first Gulf Coast hurricane occurred. Less time elapsed between Hurricane Sandy and Hurricane Harvey (the first of the 2017 hurricanes) and Congress' appropriation of funds, 3 months and 2 weeks, respectively. In contrast, a presidential disaster declaration activates the provision of funds from FEMA's Disaster Relief Fund. The SBA Disaster Loan Program is also activated by a presidential disaster declaration. Congress funds both programs through annual appropriations.<sup>85</sup>

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<sup>84</sup>GAO, *Hurricane Sandy: An Investment Strategy Could Help the Federal Government Enhance National Resilience for Future Disasters*, [GAO-15-515](#) (Washington, D.C.: July 30, 2015).

<sup>85</sup>After large-scale disasters, Congress frequently provides additional funding for both programs through supplemental appropriations.

**Figure 6: Time between Gulf Coast Hurricanes, Hurricane Sandy, and 2017 Hurricanes and First Appropriation of Community Development Block Grant Disaster Recovery Funds**



Source: GAO analysis of National Aeronautics and Space Administration and National Oceanic and Atmospheric Administration data. | GAO-19-232

**Lag in spending funds once grant agreements have been signed.**

Once grantees have entered into grant agreements with HUD, it can take years for them to implement activities and expend all of their CDBG-DR funds. There is no consensus on the amount of time it should take grantees to expend their funds. Congress has established obligation and expenditure deadlines, such as through a provision in the Disaster Relief Appropriations Act, 2013. In that act, which applies to 47 grants, grantees are required to spend the funds within 24 months of obligation unless the Office of Management and Budget (OMB) provides a waiver.<sup>86</sup> Similarly, the appropriations for the 2017 disasters also must be expended within 24 months of the date of obligation, and OMB is authorized to provide a waiver of this requirement.<sup>87</sup> In addition, legislation has been proposed

<sup>86</sup>Pub. L. No. 113-2, Div. A, § 903(c), 127 Stat 4, 17 (2013). OMB has waived this 24-month requirement for the 47 grants.

<sup>87</sup>OMB has waived the 24-month requirement for the \$35.4 billion in CDBG-DR funds appropriated for the 2017 disasters.

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that would require funds to be expended within 6 years, with the possibility of an extension up to 3 years upon a waiver by OMB.<sup>88</sup>

Since 2015, HUD has imposed a requirement that grantees expend their funds within 6 years of signing a grant agreement. According to HUD officials, they chose 6 years because their research showed that most expenditure activity occurs within the first 6 years of the grant. However, of the 50 grants awarded in fiscal years 2012 and 2013 that are at or approaching the original 6-year mark, 9 grantees (18 percent) had expended less than half of the funds.<sup>89</sup> Some of these grantees have received extensions that allow their grants to remain open until September 2022. According to HUD, a number of factors can delay recovery efforts, including subsequent disasters, litigation, and limited construction seasons due to weather. See appendix III for more information on these grants.

**Housing programs that are not aligned with unmet needs.** In past work, we found that CDBG-DR grantees are not required to align their housing activities with the needs of the affected communities. In a January 2010 report on the Gulf Coast hurricanes, we found that states used their broad discretion and additional flexibility to decide what proportion of their CDBG-DR funds went to homeowner units and rental units.<sup>90</sup> In Louisiana and Mississippi, more homeowner units were damaged than rental units, but the proportional damage to rental stock was generally greater. However, 62 percent of damaged homeowner units were assisted and 18 percent of rental units were assisted. We recommended that Congress consider providing more specific direction

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<sup>88</sup>See H.R. 4557 (115th Cong.). The additional 3-year extension would also require OMB to submit a written justification for the waiver to the Committees on Appropriations of the House of Representative and the Senate.

<sup>89</sup>Based on HUD's comments on the draft report, we excluded 13 grants that were awarded under HUD's National Disaster Resilience Competition, which awarded almost \$1 billion in funds for disaster recovery and long-term community resilience. All states and units of general local governments with major disasters declared in 2011, 2012, and 2013 were eligible, and HUD announced the finalists on January 21, 2016.

<sup>90</sup>[GAO-10-17](#). A research study we reviewed also concluded that the CDBG-DR design and implementation rules for the Gulf Coast hurricanes diverted funding away from housing assistance for renters, privileging homeowners and thereby reinforced longstanding housing inequalities. See Kevin Fox Gotham, "Reinforcing Inequalities: The Impact of the CDBG Program on Post-Katrina Rebuilding", *Housing Policy Debate*, accessed on May 16, 2018, <https://www.tandfonline.com/doi/abs/10.1080/10511482.2013.840666>.

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regarding the distribution of disaster-related CDBG assistance that states are to provide for homeowners and renters. Since the Gulf Coast hurricanes, Congress has appropriated funding for subsequent disasters; however, as of February 2019, no appropriations had addressed this issue.<sup>91</sup>

**Coordination with multiple federal agencies.** In our July 2015 report on Hurricane Sandy, we found that different federal disaster response programs are initiated at different times, making it challenging for state and local officials to determine how to use federal funds in a comprehensive manner.<sup>92</sup> In response to a survey that we conducted for that report, 12 of 13 states and cities reported that navigating the multiple funding streams and various regulations was a challenge that affected their ability to maximize disaster resilience opportunities.<sup>93</sup> For example, state officials we interviewed for that report noted the redundancy of some federal requirements for receiving disaster assistance such as the duplication of environmental reviews, which are required by both HUD and FEMA. In our January 2010 report on the Gulf Coast hurricanes, we noted that a Department of Homeland Security study indicated that experts should discuss how challenges associated with the different federal efforts that provide disaster recovery assistance—such as CDBG-DR and those administered by FEMA—could be addressed.<sup>94</sup> The study also suggested that experts explore new methods for delivering assistance.

In our June 2009 report on CDBG-DR, we also found that guidance for the Gulf Coast disaster recovery was insufficient and that conflicting

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<sup>91</sup>Although Congress has not provided more specific direction with regard to CDBG-DR funds for homeowners and renters, HUD's February 2018 and August 2018 *Federal Register* notices provided guidance on how 2017 grantees should direct their CDBG-DR funds. For example, the February 2018 *Federal Register* notice required "each grantee to primarily consider and address its unmet housing recovery needs." February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5868.

<sup>92</sup>GAO-15-515. Similarly, officials from a 2017 grantee expressed concern about the timing of disaster assistance funding. They noted that CDBG-DR funds become available much later in the disaster recovery process, which makes it difficult to provide comprehensive assistance.

<sup>93</sup>Disaster resilience is the ability to prepare and plan for, absorb, recover from, and more successfully adapt to disasters.

<sup>94</sup>GAO-10-17. The Department of Homeland Security study was conducted by the Office of the Federal Coordinator for Gulf Coast Rebuilding.

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federal decisions hindered coordination of CDBG-DR and FEMA's Hazard Mitigation Grant Program funds.<sup>95</sup> We recommended that HUD coordinate with FEMA to ensure that new guidance clarified the potential options, and limitations, available to states when using CDBG disaster assistance funds alongside other disaster-related federal funding streams. HUD issued the guidance, and the recommendation was closed in November 2011.

Without permanent statutory authority for a disaster assistance program that meets verified unmet needs, grantees will likely continue to encounter the challenges associated with needing customized grant requirements for each disaster, such as funding lags and varying requirements. Permanent statutory authority could also improve coordination among federal agencies that administer disaster funds.

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### Grantees Have Faced Administrative Challenges, Such as Building Capacity and Avoiding Improper Payments

In addition to the challenges experienced because CDBG-DR is not permanently authorized, reports on prior disasters cited CDBG-DR administrative challenges such as building capacity, avoiding improper payments, and following procurement processes.

**Grantee capacity.** Grantees have experienced difficulties establishing the necessary capacity to manage large CDBG-DR grants. An Urban Institute testimony described constraints on grantees' comprehensive capacity building.<sup>96</sup> Specifically, it noted levels of expertise and program management as a repeated source of challenges, citing limitations on the availability of skilled staff. In addition, a paper on large-scale disaster recovery reported that large-scale CDBG-DR programs are significantly larger than traditional CDBG programs, and that many grantees need to hire private contractors to fill gaps in expertise and operational capacity.<sup>97</sup>

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<sup>95</sup>GAO, *Gulf Coast Disaster Recovery: Community Development Block Grant Program Guidance to States Needs to be Improved*, [GAO-09-541](#) (Washington, D.C.: June 19, 2009).

<sup>96</sup>Testimony of Carlos Martin before the House Financial Services Subcommittee on Oversight and Investigations (May 17, 2018).

<sup>97</sup>Robert E. Hegner and Maya Larson, "Multiteam Systems in Large-Scale Disaster Recovery," *Pushing the Boundaries: Multiteam Systems in Research and Practice, Research on Managing Groups and Teams*, vol. 16 (2014). The paper further found that newly hired staff tended to arrive with limited knowledge of CDBG-DR rules and therefore require significant training to become disciplined in the evolving policies and procedures required for executing the grant.

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We also found in our June 2009 report on Gulf Coast disaster recovery that Louisiana and Mississippi lacked sufficient capacity to administer and manage CDBG-DR programs of such unprecedented size.<sup>98</sup> As discussed previously, the 2017 grantees plan to hire more staff to administer CDBG-DR funds. However, officials of one grantee and HUD officials said they are all competing for the same small pool of potential applicants with CDBG-DR expertise. HUD officials said grantees in Puerto Rico and the U.S. Virgin Islands face the additional challenge of relocating potential candidates, and in the case of Puerto Rico finding bilingual candidates.

**Improper payments.** Our prior reports and those of the HUD OIG have identified improper payments as an ongoing challenge for HUD and CDBG-DR grantees. In February 2015, we found that HUD's policies and procedures did not address all key requirements for estimating improper payments for Hurricane Sandy CDBG-DR funds.<sup>99</sup> To help ensure that HUD produced reliable estimates of its improper payments, we recommended that HUD revise its policies and procedures by (1) requiring payments to federal employees to be included in populations for testing as required by the Improper Payments Information Act of 2002, as amended, and (2) including steps to assess the completeness of the population of transactions used for selecting the samples to be tested.<sup>100</sup> HUD concurred with our recommendation and has since updated its policies and procedures to require that payments to federal employees be included in the improper payment testing for the program. However, because it has not yet taken steps to ensure that all grantee files are included in the population for testing improper payments, this recommendation remained open as of February 2019.

The HUD OIG also has conducted numerous audits of the internal controls of prior CDBG-DR grantees, a number of which resulted in findings related to improper payments. For example, in an August 2017 report on the State of New Jersey, the OIG found that the state disbursed

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<sup>98</sup>GAO-09-541. The CDBG-DR grants that Louisiana and Mississippi received were substantially larger than their more typical multimillion dollar programs.

<sup>99</sup>GAO, *Disaster Relief: Agencies Need to Improve Policies and Procedures for Estimating Improper Payments*, GAO-15-209 (Washington, D.C.: Feb. 27, 2015).

<sup>100</sup>Testing is a measurement process for developing estimates of improper payments, which are any payments that should not have been made or that were made in an incorrect amount.

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Sandy CDBG-DR funds to homebuyers who did not meet all of the program eligibility requirements.<sup>101</sup> It also found in a December 2016 report that the City of New York disbursed more than \$18.2 million in CDBG-DR funds for state sales tax on program repairs and maintenance services that the city was not legally required to pay under New York state law.<sup>102</sup> In a July 2016 report on the administration of SBA and CDBG-DR disaster assistance, the Congressional Research Service noted that the availability and timing of disaster assistance from different sources can result in agencies providing duplicative assistance.<sup>103</sup> In addition, according to SBA data we reviewed for our July 2010 report on the Gulf Coast hurricanes, SBA determined that 76 small businesses approved for loans under Louisiana's Business Recovery Grant and Loan Program, funded by CDBG-DR, received duplicate benefits under SBA's Disaster Loan Program.<sup>104</sup>

In the appropriations acts for the 2017 disasters, Congress required federal agencies, including HUD, to submit their plans for ensuring internal control over disaster relief funding to Congress, among others. HUD submitted its plan to Congress on November 2, 2018. As previously noted, we are conducting a separate review on, among other things, HUD's internal control plan.

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<sup>101</sup>Department of Housing and Urban Development, Office of Inspector General, *The State of New Jersey Did Not Always Disburse Disaster Funds for Its Sandy Homebuyer Assistance Program To Assist Eligible Home Buyers*, 2017-PH-1005 (Philadelphia, PA: Aug. 14, 2017). The HUD OIG recommended that HUD direct New Jersey to repay HUD from non-federal funds for nearly \$1 million disbursed to 21 ineligible homebuyers. As of March 5, 2019, this recommendation remained open.

<sup>102</sup>Department of Housing and Urban Development, Office of Inspector General, *The City of New York, NY, Lacked Adequate Controls to Ensure That the Use of CDBG-DR Funds Was Consistent With the Action Plan and Applicable Federal and State Requirements*, 2017-NY-1004 (New York - New Jersey: Dec. 21, 2016). The HUD OIG recommended that HUD instruct City of New York officials to reimburse the program from non-federal funds for the more than \$18.2 million in exempt state sales tax that the city was not legally required to pay. As of March 5, 2019, this recommendation remained open.

<sup>103</sup>Congressional Research Service, *SBA and CDBG-DR Duplication of Benefits in the Administration of Disaster Assistance: Background, Policy Issues, and Options for Congress*, R44553 (Washington, D.C.: July 1, 2016).

<sup>104</sup>GAO, *Hurricanes Katrina and Rita: Federally Funded Programs Have Helped to Address the Needs of Gulf Coast Small Businesses, but Agency Data on Subcontracting are Incomplete*, [GAO-10-723](#) (Washington, D.C.: July 29, 2010). The 76 small businesses determined to have received duplicate benefits for the same loss were required to pay off or pay down their SBA disaster loans with the funds they received under the Business Recovery Grant and Loan Program.



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**Procurement.** The HUD OIG has issued nearly 20 audits on disaster recovery grantees that contained findings related to procurement, including reviews of grantees that received funds to recover from the Gulf Coast hurricanes and Hurricane Sandy. In a September 2017 report, the HUD OIG found that HUD did not provide sufficient guidance and oversight to ensure that state disaster grantees followed proficient procurement processes.<sup>105</sup> The OIG focused on whether HUD staff had ensured that the grantee had adopted federal procurement standards or had a procurement process that was equivalent to those standards. It made four recommendations to help ensure that products and services are purchased competitively at fair and reasonable prices in future disaster allocations.<sup>106</sup>

In a September 2016 report, the HUD OIG described the results of an initiative by the Council of the Inspectors General on Integrity and Efficiency to review funds provided by the Disaster Relief Appropriations Act, 2013.<sup>107</sup> This review was conducted by the HUD OIG and the OIGs for seven other agencies that received funds for Hurricane Sandy and other disasters under the act. The HUD OIG pointed out a range of

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<sup>105</sup>Department of Housing and Urban Development, Office of Inspector General, *HUD Did Not Provide Sufficient Guidance and Oversight To Ensure That State Disaster Grantees Followed Proficient Procurement Processes*, Audit Report No. 2017-PH-0002 (Philadelphia, PA: Sept. 22, 2017).

<sup>106</sup>The HUD OIG report recommended that HUD (1) clarify that if a grantee chooses to certify that its procurement process is equivalent to federal procurement standards, “equivalent” means that its procurement process fully aligns with, or meets the intent of, each of the federal procurement standards; (2) improve its controls to ensure that appropriate staff adequately evaluate the proficiency of grantee procurement processes for grantees that select the equivalency option; (3) clarify and improve its guidance for grantees to explain what it means to have a procurement process that fully aligns with, or meets the intent of, each of the federal procurement standards; and (4) provide procurement training and technical assistance to grantees to ensure that they understand the intent of each of the federal procurement standards. As of November 2018, these recommendations remained open. As previously discussed, in commenting on our draft report, HUD said there has been a protracted disagreement between HUD and the HUD OIG regarding the procurement requirements that may be imposed on CDBG-DR recipients, specifically the definition of “equivalent.”

<sup>107</sup>Department of Housing and Urban Development, Office of Inspector General, *Disaster Relief Appropriations Act, 2013: Financial Status, Observations, and Concerns*, Report No. 2016-FW-1007 (Washington, D.C.: Sept. 12, 2016). The Council of the Inspectors General on Integrity and Efficiency is an independent executive branch entity that addresses integrity, economy, and effectiveness issues that transcend individual government agencies and aids in establishing a professional, well-trained, and highly skilled workforce in OIGs.

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contracting issues that HUD grantees faced, including that they billed outside the scope of work, lacked competitive procedures or full and open competition, and had unsupported labor costs. It attributed these challenges to HUD and the grantees (1) not understanding federal contracting regulations and cost principles and (2) lacking internal controls over procurement processes. As a result, the HUD OIG stated that HUD and grantees did not know whether they received the best value and greatest overall benefit from their various disaster relief procurement contracts, amendments, and change orders. The OIG concluded that the Council of the Inspectors General on Integrity and Efficiency should work with HUD to ensure the agency, grantees, and contractors complied with federal contracting requirements.

The HUD OIG also recommended in a May 2018 report that Texas adhere more closely to federal procurement regulations in applying for and expending CDBG-DR grants.<sup>108</sup> It recommended that HUD require the grantee to (1) ensure that its procurement and expenditure policies and procedures are implemented and working as designed and (2) ensure that warnings about false statements and false claims are included in all of its contract-related forms. Texas responded that it would continue to strengthen its current program structure.

**Monitoring.** In our June 2009 report on CDBG-DR guidance for the Gulf Coast disaster recovery, we found that in addition to HUD's four to five on-site monitoring and technical assistance visits per year, a number of state officials needed clarification of federal regulations, environmental requirements, and waivers related to the use of CDBG-DR funds in disaster recovery.<sup>109</sup> Although HUD had field offices in both Louisiana and Mississippi, the CDBG-DR grant management responsibilities were handled by HUD headquarters staff. Grantees in both states emphasized that an additional onsite presence from HUD would have been beneficial to their recovery efforts.<sup>110</sup> In addition, in a May 2018 report on CPD's monitoring of grantees' compliance with requirements contained in the Disaster Relief Appropriations Act, 2013, the HUD OIG found a lack of

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<sup>108</sup>Department of Housing and Urban Development, Office of Inspector General, 2018-FW-1003.

<sup>109</sup>[GAO-09-541](#).

<sup>110</sup>For the monitoring of the 2017 grantees, HUD officials said they had taken steps to have an onsite presence, such as hiring staff that will be located in Puerto Rico and the U.S. Virgin Islands.

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monitoring of grantees' drawdown transactions.<sup>111</sup> The OIG recommended that CPD monitor these transactions to ensure that grantees appropriately record transactions. HUD agreed to open an investigation to review the transactions before responding to the recommendation.

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## Conclusions

CDBG has been widely viewed as a convenient, expedient, and accessible tool for meeting needs in disaster-impacted communities that are not met by other federal and private sources, but CDBG-DR has proven to be slow for HUD and grantees to implement. Over a year after Congress first appropriated CDBG-DR funds for recovery from the 2017 hurricanes, grantees have generally not drawn down these funds to aid disaster hurricane victims because they continue to plan and design their activities. While it is important to provide disaster assistance promptly, HUD also needs to ensure that grantees are well positioned to administer the funds.

Before expending funds, HUD required grantees to submit planning documentation, but its review of this documentation was limited. Specifically, HUD did not have adequate guidance for staff to use when assessing the adequacy of grantees' financial controls, procurement processes, and grant management procedures and of their capacity and unmet needs assessments. HUD also did not maintain documentation to substantiate staff's conclusions that the grantees' submissions were sufficient. By developing additional guidance for staff to use in evaluating the quality of grantees' financial processes and procedures and capacity and unmet needs assessments, HUD can provide better assurance that its reviews are thorough and consistent. Further, without documenting the basis for its conclusions when reviewing future grantees' submissions, stakeholders and decision makers lack information on why HUD concluded that grantees' financial processes and procedures and capacity and unmet needs assessments were adequate. HUD also misses an opportunity to leverage this information later to mitigate risk and inform its monitoring of grantees.

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<sup>111</sup>Department of Housing and Urban Development, Office of the Inspector General, *Interim Report - Potential Antideficiency Act and Generally Accepted Accounting Principle Violations Occurred With Disaster Relief Appropriation Act, 2013, Funds*, Memorandum No. 2018-FW-0802 (Fort Worth, TX: May 15, 2018).

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HUD's monitoring of the 2017 grantees will be critical given challenges that the HUD OIG has identified with grantees' procedures and our concerns about HUD's reviews of grantees' initial submissions. But HUD did not have a monitoring plan that reflected the specific risk factors of each grantee and outlined the scope of its monitoring. A comprehensive monitoring plan would help HUD ensure that its oversight of grantees' compliance with grant requirements focused on grantees' areas of greatest risks. Further, HUD did not yet have the staff in place to effectively oversee CDBG-DR funds. Without strategic workforce planning that determines if the number of staff the agency will be able to hire is sufficient to oversee the growing number of CDBG-DR grants, identifies the critical skills and competencies needed, and includes strategies to address any gaps, HUD will not be able to identify the staffing resources necessary to oversee CDBG-DR grants.

Finally, if the federal government continues to use the CDBG program for federal disaster assistance, grantees will likely encounter many of the same challenges they have in the past—including lags in accessing funding, requirements that may vary for each disaster, and difficulties coordinating with multiple federal agencies. Establishing permanent statutory authority for a disaster assistance program that meets verified unmet needs in a timely manner would provide a consistent framework for administering funds for unmet needs going forward. The program could be administered either by HUD or another agency that had authority to issue associated regulations. Such a statute and regulations could create consistent requirements for grantees and specify how the program would fit into the federal government's disaster assistance framework. The importance of establishing permanent statutory authority for such a program is underscored by the expected increase in the frequency and intensity of extreme weather and climate-related events.

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## Matter for Congressional Consideration

Congress should consider legislation establishing permanent statutory authority for a disaster assistance program administered by HUD or another agency that responds to unmet needs in a timely manner and directing the applicable agency to issue implementing regulations.

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## Recommendations for Executive Action

We are making the following five recommendations to HUD:

The Assistant Secretary for Community Planning and Development should develop additional guidance for HUD staff to use when assessing

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the adequacy of the financial controls, procurement processes, and grant management procedures that grantees develop. (Recommendation 1)

The Assistant Secretary for Community Planning and Development should develop additional guidance for HUD staff to use when assessing the adequacy of the capacity and unmet needs assessments that grantees develop. (Recommendation 2)

The Assistant Secretary for Community Planning and Development should require staff to document the basis for their conclusions during reviews of grantees' financial controls, procurement processes, and grant management procedures and capacity and unmet needs assessments. (Recommendation 3)

The Assistant Secretary for Community Planning and Development should develop and implement a comprehensive monitoring plan for the 2017 grants. (Recommendation 4)

The Assistant Secretary for Community Planning and Development should conduct workforce planning for the Disaster Recovery and Special Issues Division to help ensure that it has sufficient staff with appropriate skills and competencies to manage a growing portfolio of grants. (Recommendation 5)

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## Agency Comments and Our Evaluation

We provided a draft of this report to HUD for comment. In written comments, which are summarized below and reproduced in appendix IV, HUD partially agreed with two of our recommendations and generally agreed with the remaining three.

HUD partially agreed with the draft report's first recommendation to develop standards for HUD staff to use when assessing the adequacy of the financial controls, procurement processes, and grant management procedures that grantees develop. HUD disagreed that it needed to develop standards for financial processes and procedures, stating that such standards already exist. Specifically, HUD pointed to the February 2018 *Federal Register* notice, which states that a grantee has proficient financial policies and procedures if it submitted to HUD certain information for its review.<sup>112</sup> In the draft report, we acknowledged that the

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<sup>112</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5847.

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notice required grantees to submit information such as certain audits, financial reports, and their financial standards. However, we concluded that the notice does not describe how HUD reviewers should assess the quality of those financial standards. HUD agreed that providing additional guidance to staff on defining the specific conditions that must exist within these documents would improve its proficiency determination. This was the intent of the recommendation included in the draft report. However, to avoid confusion, we revised the recommendation and related report language to further clarify our intent by substituting “additional guidance” for “standards.”

HUD also partially agreed with our second recommendation to develop standards for HUD staff to use when assessing the adequacy of grantees’ capacity and unmet needs assessments. Similar to our first recommendation, HUD stated that the standards for HUD staff to use when assessing the adequacy of these assessments are included in the February 2018 *Federal Register* notice.<sup>113</sup> Specifically, HUD noted that it states that HUD will determine the grantee’s implementation plan, which contains its capacity assessment, to be adequate if it addresses the items required in the notice.<sup>114</sup> HUD also stated that the notice directed grantees to develop a needs assessment to understand the type and location of community needs and to target limited resources to those areas with the greatest need.

In the draft report, we acknowledged that the notice required grantees to submit (1) an implementation plan that describes, among other things, their capacity to carry out the recovery and how they will address any capacity gaps for HUD and (2) an action plan for disaster recovery that includes an assessment of unmet needs to help grantees understand the type and location of community needs and to target their CDBG-DR funds to those areas with the greatest need. However, we concluded that the notice does not describe how HUD reviewers should assess the adequacy of these assessments. HUD agreed that providing additional

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<sup>113</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5848-49.

<sup>114</sup>In its comments on its review of grantees’ implementation plans, HUD also noted that it had provided examples to us of email exchanges with grantees that identified instances where grantees were directed to revise information to make it clearer or to provide additional information. In the draft report, we acknowledged that HUD provided examples of written feedback given to one grantee, but noted that our review of this documentation showed variation in the extent to which the reviewer requested information about the quality of the information provided.

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guidance to HUD staff on defining the specific conditions that must exist within the documents grantees submit to HUD would improve the review of grantee capacity. HUD also agreed that there was an opportunity to improve the consistency of HUD's review of grantees' action plans, including their unmet needs assessments. Because providing additional guidance to HUD staff was the intent of the recommendation in the draft report, we revised the recommendation and related report language to clarify our intent by substituting "additional guidance" for "standards."

HUD generally agreed with our remaining three recommendations.

- HUD agreed with our third recommendation to document the basis for conclusions during reviews of grantees' financial controls, procurement processes, and grant management procedures and capacity and unmet needs assessments, stating that it will require staff to better document their analysis.
- HUD also agreed with our fourth recommendation to develop and implement a comprehensive monitoring plan for the 2017 grants, stating that such a plan is necessary to effectively manage the growing portfolio of CDBG-DR grants. It provided a monitoring schedule for fiscal year 2019 that it characterized as a monitoring plan, and noted that it had begun identifying monitoring strategies for all monitoring reviews that would occur from March 2019 through May 2019. It also said it would develop the remaining strategies after the initial monitoring reviews. However, HUD still needs to develop a plan that identifies the specific risk factors of each grantee and outlines the scope of its monitoring.
- Similarly, HUD agreed with our fifth recommendation to conduct workforce planning for the Disaster Recovery and Special Issues Division. It stated that the division had developed a staffing plan to address long-term oversight and management of the CDBG-DR portfolio and, as of March 1, 2019, expected to fill 14 positions over the next 3 months. In addition, it stated that it had identified an approach to secure 20 additional positions to support CDBG-DR and expected to finalize this approach in the next few weeks once it was approved by HUD's financial and human capital officials. We added this updated information to the report. While developing a staffing plan is a good first step, HUD still needs to conduct workforce planning to determine if the number of staff they will be able to hire is sufficient to oversee the growing number of CDBG-DR grants, identify the critical skills and competencies needed, and develop strategies for addressing any gaps.

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HUD also provided the following comments on our findings.

- Regarding the discussion of unmet needs assessments, HUD noted that the draft report does not acknowledge that the second appropriation for 2017 disasters directed HUD to provide a minimum of \$11 billion for Puerto Rico and the U.S. Virgin Islands for unmet needs, which made HUD's standard methodology for determining the allocation based on unmet needs data moot.<sup>115</sup> HUD stated that this information is critical to understanding the allocation of funds toward unmet needs associated with 2017 disasters. Our review of the unmet needs assessments focused on the first CDBG-DR appropriation of \$7.4 billion, for which HUD used its standard methodology to allocate the funds. We focused on this initial allocation because HUD had reviewed and approved the grantees' unmet need estimates for these funds. In response to HUD's comment, we added language to the report that \$11 billion was to be allocated to Puerto Rico and the U.S. Virgin Islands where we make reference to the second CDBG-DR appropriation of \$28 billion.
- Regarding the discussion of our prior work that found that CDBG-DR grantees are not required to align their housing activities with the needs of the affected communities, HUD stated the agency had implemented requirements that directed grantees to ensure that CDBG-DR funding allocations are reasonably proportionate to the total remaining unmet needs for housing, infrastructure, and economic revitalization. It also noted that the February 2018 *Federal Register* notice directs grantees to propose an allocation of CDBG-DR funds that primarily considers unmet housing needs. The focus of our discussion was the status of our recommendation that Congress consider providing more specific direction on the distribution of CDBG-DR funds. Although we acknowledged in the draft report that HUD instructed the 2017 grantees to primarily use their initial CDBG-DR allocation to meet unmet housing needs, we did not do so in the section of the draft report that discussed this prior work. In response to HUD's comment, we added similar language in that section.
- Regarding our discussion of prior HUD OIG reports on grantee procurement practices, HUD said there has been a protracted disagreement between HUD and the HUD OIG regarding the procurement requirements that may be imposed on CDBG-DR recipients, specifically the definition of "equivalent." HUD stated that

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<sup>115</sup>Pub. L. No. 115-123.



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the most recent resolution of this disagreement came in a January 10, 2017, decision memorandum from the former HUD Deputy Secretary, supported by a legal opinion from HUD's Office of General Counsel. According to HUD, these documents supported CPD's position that states have the authority to follow their own procurement standards. However, according to the HUD OIG's December 2018 semiannual report, the HUD OIG disagreed with this assessment and referred this issue to the Deputy Secretary on March 31, 2017.<sup>116</sup> The report noted that, as of the end of fiscal year 2018, the HUD OIG had not received a decision. We revised the report to state that HUD and the HUD OIG have an ongoing disagreement.

- Regarding a HUD OIG report on Florida that we cited, HUD said it was evident that the state's financial policies and capacities were functioning effectively because the state independently corrected a bookkeeping error prior to the HUD OIG audit. However, the HUD OIG noted in the report that Florida corrected the error the OIG identified during the audit. Florida agreed with the finding and accepted the recommendation. Therefore, we made no change to the report. Further, HUD noted that the draft report cites recommendations from a number of prior HUD OIG audits that had been closed or where fundamental disagreement existed between HUD and the HUD OIG. In the few instances where we did not provide the status of HUD OIG recommendations to HUD, we added their status to the report.
- Regarding our analysis of the status of 2012 and 2013 CDBG-DR grants, HUD stated that the draft report included a simplified analysis of CDBG-DR grant performance that dismissed HUD's determination that disbursements from a CDBG-DR grant are substantially completed 6 years after the effective date of the agreement. It noted that our analysis excluded grants that were closed out and included grants that should not have been included because they had a contract-effective date of mid-2015 or later. However, our analysis that HUD commented on draws from its own publicly available monthly report entitled "Monthly CDBG-DR Grant Financial Report." Based on HUD's comments, the report appears to be missing key information on the timing of the grants—namely, some grants identified as 2012 and 2013 grants had effective dates of 2015 or later. Further, many of the grants that HUD said were unfairly included in our analysis were designated as "slow spenders" in HUD's own

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<sup>116</sup>Department of Housing and Urban Development, Office of Inspector General, SAR 80.

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monthly report. We reviewed the additional documentation HUD provided and updated our analysis.

HUD also provided technical comments, which we incorporated as appropriate. We considered three comments to be more than technical in nature.

- First, HUD stated that the draft report (1) was critical of grantee capacity challenges, implying that the varying requirements in the numerous *Federal Register* notices further tax a grantee's capacity, and (2) suggested that permanent regulatory authority for CDBG-DR would begin to address these issues. However, the draft report identified grantee capacity as an administrative challenge that CDBG-DR grantees face that is not related to the lack of permanent statutory authority.
- Second, HUD stated that the primary cause of the "ad hoc nature" of the CDBG-DR program and grantee capacity challenges is the unpredictability of disasters and the uniqueness of each recovery effort, not the lack of permanent statutory authority. It said that each congressional appropriation includes unique statutory provisions aimed at making incremental program improvements that can only be implemented through a new *Federal Register* notice. We recognize that each disaster is unique, but as our past work and that of the HUD OIG has shown, there are certain challenges associated with meeting customized grant requirements for each disaster—such as funding lags, varying requirements, and coordination with multiple programs—that could be addressed if Congress considered permanently authorizing a disaster assistance program that meets unmet needs.
- Third, HUD stated that CDBG-DR funds are distinct from FEMA and SBA response and recovery resources because FEMA and SBA disaster programs have a narrower scope. HUD noted that CDBG-DR funds aid in a community's long-term recovery from a catastrophic disaster, which requires substantial time for planning the community-wide recovery effort. We recognize that long-term recovery takes time, but we maintain that this does not prohibit Congress from considering legislation establishing permanent statutory authority for a disaster assistance program that responds to unmet needs.

Because we believe the draft report adequately addressed the various issues HUD raised, we made no changes in response to these comments.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of Housing and Urban Development, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or [garcia Diaz@gao.gov](mailto:garcia Diaz@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

A handwritten signature in black ink, appearing to read "Daniel Garcia-Diaz". The signature is fluid and cursive, with a long horizontal stroke at the bottom.

Daniel Garcia-Diaz  
Director, Financial Markets and Community Investment

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*Congressional Addressees*

The Honorable Michael Enzi  
Chairman  
Committee on the Budget  
United States Senate

The Honorable Ron Johnson  
Chairman  
The Honorable Gary C. Peters  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Rand Paul, M.D.  
Chairman  
Subcommittee on Federal Spending, Oversight and Emergency  
Management  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Marco Rubio  
Chairman  
Committee on Small Business and Entrepreneurship  
United States Senate

The Honorable Maxine Waters  
Chairwoman  
Committee on Financial Services  
House of Representatives

The Honorable Sean Duffy  
Ranking Member  
Subcommittee on Housing, Community Development and Insurance  
Committee on Financial Services  
House of Representatives

The Honorable Al Green  
Chairman  
Subcommittee on Oversight and Investigations  
Committee on Financial Services  
House of Representatives

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The Honorable Bennie Thompson  
Chairman  
Committee on Homeland Security  
House of Representatives

The Honorable Peter T. King  
Ranking Member  
Subcommittee on Emergency Preparedness, Response, and Recovery  
Committee on Homeland Security  
House of Representatives

The Honorable Elijah Cummings  
Chairman  
The Honorable Jim Jordan  
Ranking Member  
Committee on Oversight and Reform  
House of Representatives

The Honorable Nydia Velázquez  
Chairwoman  
Committee on Small Business  
House of Representatives

The Honorable Peter DeFazio  
Chairman  
The Honorable Sam Graves  
Ranking Member  
Committee on Transportation and Infrastructure  
House of Representatives

The Honorable Emanuel Cleaver, II  
House of Representatives

The Honorable Michael McCaul  
House of Representatives

The Honorable Gary J. Palmer  
House of Representatives

The Honorable Ann Wagner  
House of Representatives

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to examine (1) the status of the 2017 Community Development Block Grant Disaster Recovery (CDBG-DR) grants; (2) the steps the 2017 CDBG-DR grantees have taken to establish financial processes and procedures, build capacity, and estimate unmet needs; (3) the extent to which the Department of Housing and Urban Development (HUD) has reviewed the steps that grantees have taken and developed plans for future monitoring; and (4) the challenges that HUD and grantees have faced in administering grants.<sup>1</sup> We focused our review on the states of Florida and Texas and the U.S. territories of Puerto Rico and the U.S. Virgin Islands—the states and territories most directly affected by Hurricanes Harvey, Irma, and Maria and that received over \$1 billion in CDBG-DR funds to address unmet recovery needs.<sup>2</sup>

For all of our objectives, we visited Puerto Rico and Texas to interview officials at the Puerto Rico Department of Housing and Texas General Land Office, respectively, which are the 2017 CDBG-DR grantees in those jurisdictions. During our visit to Puerto Rico, we also met with Puerto Rico’s Central Office of Recovery, Reconstruction and Resilience, which was created to provide administrative oversight of all programs related to disaster recovery. We visited these two grantees because they were the 2017 grantees that received the largest amounts of CDBG-DR funds. We also conducted telephone interviews with officials from the U.S. Virgin Islands Housing Finance Authority and the Florida Department of Economic Opportunity, the 2017 CDBG-DR grantees in those jurisdictions.

To determine the status of the 2017 CDBG-DR grants, we reviewed relevant laws and the *Federal Register* notices allocating the CDBG-DR funds and interviewed HUD officials to determine the steps grantees were

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<sup>1</sup>The Supplemental Appropriations for Disaster Relief Requirements Act, 2017, Pub. L. No. 115-56, Division B, 131 Stat. 1129, 1137 (2017) (hereafter referred to as Pub. L. No. 115-56), enacted on September 8, 2017, appropriated \$7.4 billion in CDBG-DR funding for major disasters declared in calendar year 2017. On February 9, 2018, Congress appropriated an additional \$28 billion in CDBG-DR funding primarily for major disasters declared in 2017 through the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018, Pub. L. No. 115-123, Division B, Subdivision 1, 132 Stat. 64, 103 (2018) (hereafter referred to as Pub. L. No. 115-123). The act required HUD to allocate in total no less than \$11 billion to Puerto Rico and the U.S. Virgin Islands.

<sup>2</sup>Unmet recovery needs are losses that have not been met with insurance or other forms of assistance, including federal disaster assistance. We refer to the four largest 2017 grantees—Puerto Rico, Texas, the U.S. Virgin Islands, and Florida—as the 2017 grantees and their grants as the 2017 grants.

required to take before signing a grant agreement and expending their 2017 CDBG-DR funds. We reviewed key documents—such as documentation on financial processes and procedures, implementation plans, and action plans—to determine when they were submitted and approved. To determine how much CDBG-DR funding the 2017 grantees had drawn down, we examined data from the Disaster Recovery Grant Reporting system as of January 2019 (the most recent month available during our review).<sup>3</sup> To assess the reliability of these data, we reviewed relevant documentation on the system and interviewed officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purpose of reporting CDBG-DR draw down information.

To determine the steps the 2017 CDBG-DR grantees have taken to establish financial processes and procedures, build capacity, and estimate unmet needs, we reviewed grantees' documents, such as their organizational charts and capacity assessments, to determine how grantees plan to administer the CDBG-DR grants. In addition, we identified and reviewed relevant HUD Office of the Inspector General (OIG) reports to determine whether the office had previously identified concerns about these grantees' financial processes and procedures and capacity.

To determine how grantees calculated their unmet housing needs for homeowners and renters, we determined how HUD calculated grantees' unmet needs by reviewing the methodology outlined in the *Federal Register* notices allocating the CDBG-DR funds and interviewing HUD officials.<sup>4</sup> We focused on the calculation HUD used to determine unmet housing needs because the February 2018 *Federal Register* notice required grantees to primarily use their initial CDBG-DR allocation to

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<sup>3</sup>The Disaster Recovery Grant Reporting system is a HUD financial and information system that contains CDBG-DR funding data and reported expenditures, among other things.

<sup>4</sup>See *Allocations, Common Application, Waivers, and Alternative Requirements for 2017 Disaster Community Development Block Grant Disaster Recovery Grantees*, 83 Fed. Reg. 5844 (Feb. 9, 2018), hereafter referred to as the February 2018 *Federal Register* notice, and *Allocations, Common Application, Waivers, and Alternative Requirements for Community Development Block Grant Disaster Recovery Grantees*, 83 Fed. Reg. 40314 (Aug. 14, 2018), hereafter referred to as the August 2018 *Federal Register* notice.

address their unmet housing needs.<sup>5</sup> We further focused on the housing needs of homeowners and renters because they constituted the largest portion (ranging from 47 percent in Texas to 99 percent in Florida) of grantees' total estimates of housing needs.<sup>6</sup> To determine how grantees calculated the housing needs estimates of homeowners and renters and the activities grantees planned to fund with the CDBG-DR grants, we reviewed grantees' descriptions of their methodologies in the action plans they were required to develop for their initial CDBG-DR allocation.<sup>7</sup> Although we did not conduct an extensive review of the grantees' methodologies for estimating the unmet housing needs of homeowners and renters, we compared their methodologies to HUD's methodology (described in *Federal Register* notices), identifying any differences.

To examine the extent to which HUD has reviewed the steps that grantees have taken and developed plans for future monitoring, we reviewed HUD documents such as the completed checklists it used to review (1) documentation grantees submitted for certification of their financial controls, procurement processes, and grant management procedures, (2) grantees' implementation plans, which contained a capacity assessment, and (3) grantees' action plans for disaster recovery, including their unmet needs assessments.<sup>8</sup> We compared these checklists against relevant statutory and regulatory requirements and

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<sup>5</sup>February 2018 *Federal Register* notice, 83 Fed. Reg. 5844, 5868. The August 2018 *Federal Register* notice HUD published, which allocated additional CDBG-DR funds, allows a grantee to use these funds to address unmet economic revitalization and infrastructure needs that are unrelated to unmet housing needs after the grantee demonstrates in its needs assessment that there is no remaining unmet housing needs. August 2018 *Federal Register* notice, 83 Fed. Reg. 40314, 40323.

<sup>6</sup>Other types of housing needs included those reported by housing authorities.

<sup>7</sup>The February 2018 *Federal Register* notice required grantees to develop an action plan that includes an assessment of unmet housing, infrastructure, and economic revitalization needs and a description of program activities intended to meet these needs.

<sup>8</sup>See Department of Housing and Urban Development, *Community Development Block Grant–Disaster Recovery (CDBG-DR): P.L. 115-56 Financial Management and Grant Compliance Certification for States and Grantees subject to State CDBG Requirements* (Washington, D.C.: January 2018) and Department of Housing and Urban Development, *2017 Events Management Capacity, Initial Action Plan, and AP Certifications Checklists*, accessed April 23, 2018, <https://www.hudexchange.info/resource/5673/2017-events-management-capacity-initial-action-plan-and-ap-certifications-checklists/>.



internal control standards.<sup>9</sup> In addition, we reviewed examples of unofficial working documents that HUD provided, such as a grantee's response to HUD questions on the documentation that it had submitted. Further, to determine HUD's monitoring of the 2017 CDBG-DR grantees, we reviewed HUD documents such as the Office of Community Planning and Development's monitoring handbook and monitoring schedule for fiscal year 2019 and interviewed HUD officials.<sup>10</sup> We compared HUD's monitoring policies and procedures against relevant internal control standards.<sup>11</sup> Finally, we interviewed HUD officials about their resource needs, hiring plans, and plans to monitor current and future CDBG-DR grants. We compared HUD's hiring plans against relevant internal control standards and best practices for workforce planning we have previously identified.<sup>12</sup>

To determine the challenges that HUD and grantees have faced in administering grants, we conducted a literature search for reports on CDBG-DR funds used to recover from the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma) and Hurricane Sandy. We focused on these hurricanes because Katrina, the costliest of the three Gulf Coast hurricanes, and Sandy were among the top five costliest hurricanes on record in the United States.<sup>13</sup> We searched for GAO, HUD OIG, and

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<sup>9</sup>Pub. L. No. 115-56 and Pub. L. No. 115-123 require HUD to certify that CDBG-DR grantees have proficient financial controls, procurement processes, and grant management procedures and grantees to submit action plans to HUD. In addition, the February 2018 *Federal Register* notice requires that grantees demonstrate that they have the capacity to effectively manage the CDBG-DR funds and that their action plans include an assessment of unmet needs. February 2018 *Federal Register* notice, 83 Fed. Reg. 5847, 5849. GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

<sup>10</sup>Department of Housing and Urban Development, *Community Planning and Development Monitoring Handbook* (Washington, D.C.: February 2017).

<sup>11</sup>[GAO-14-704G](#).

<sup>12</sup>[GAO-14-704G](#) and GAO, *Human Capital: Key Principals for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003). As part of this prior work, we developed key principles for workforce planning by synthesizing information from meetings with organizations with government-wide responsibilities for or expertise in workforce planning; our own guidance, reports, and testimonies on federal agencies' workforce planning and human capital management efforts; leading human capital periodicals; and our own experiences in human capital management.

<sup>13</sup>According to the National Oceanic and Atmospheric Administration, the five costliest hurricanes on record are Hurricane Katrina at \$160 billion, Hurricane Harvey at \$125 billion, Hurricane Maria at \$90 billion, Hurricane Sandy at approximately \$70 billion, and Hurricane Irma at \$50 billion. (All figures are in 2017 constant dollars.)

Congressional Research Service reports and other literature such as government reports, peer-reviewed journals, hearings and transcripts, books, and association publications.

- To identify GAO reports, we used the search engine on GAO's public website and searched for relevant terms such as "community development block grant," "Sandy," "Katrina," and "Gulf Coast" from August 2005 (the month of the 2005 hurricanes) to April 2018 (the date of the search).
- To identify HUD OIG reports, we reviewed disaster-related reports the HUD OIG made available on its public webpages titled "Disaster Oversight Highlights," "Superstorm Sandy," and "Hurricane Katrina."
- To identify Congressional Research Service reports, we used its public website's search engine and searched for the terms "community development block grant" and "disaster."
- To identify the other literature sources, we searched the following: ABI/INFORM®, Econ Lit, National Technical Information Service, and 20 other databases through GAO's ProQuest subscription; Nexis; and Congressional Quarterly. We used terms such as "Community Development Block Grant," "CDBG," "disaster," "Katrina," "Sandy," "challenge," and "barrier" and limited the publication date range to between 2005 and 2018.

Our searches initially yielded 157 sources. We screened out 23 based on their abstracts and an additional 103 sources after reviewing their full content. We excluded studies that related to the traditional CDBG program rather than CDBG-DR and those that provided general background on CDBG-DR. We determined that the remaining 31 sources were relevant for our purposes and reviewed them to determine if they identified any challenges that HUD and CDBG-DR grantees faced in administering prior CDBG-DR funds. Specifically, we considered any description of concerns with the administration and oversight of CDBG-DR to be a challenge. Using a standard form, one analyst reviewed each source, identified relevant challenges, and assigned the relevant challenges to a category. A second analyst reviewed the identification and categorization. Where there were differences in the review of the first and second analyst, the two conferred and entered a final decision. We also interviewed HUD officials and the 2017 CDBG-DR grantees to obtain their perspectives on the challenges in administering the 2017 grants.

To determine the time it took grantees to receive CDBG-DR funds (one of the challenges we identified through our literature review), we reviewed

information from the Disaster Recovery Grant Reporting system, HUD notices, and other sources to obtain the dates for the appropriations, allocations, and grant agreement for the Gulf Coast hurricanes, Hurricane Sandy, and the 2017 hurricanes. To determine the time it took grantees to expend their CDBG-DR funds (another challenge we identified through our literature review), we analyzed expenditure data in the Disaster Recovery Grant Reporting system for grants made in fiscal years 2012 and 2013, as of January 1, 2019.<sup>14</sup> We selected these grants because HUD officials told us that grantees generally expend the majority of their CDBG-DR funds within 6 years of signing a grant agreement, and the 2012 and 2013 grantees are approaching this milestone. To assess the reliability of the Disaster Recovery Grant Reporting system data, we reviewed relevant documentation on the system and interviewed officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purpose of reporting grant agreement dates and CDBG-DR expenditures.

We conducted this performance audit from January 2018 to March 2019 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>14</sup>We excluded 13 grants that were awarded under HUD's National Disaster Resilience Competition, which awarded almost \$1 billion in funds for disaster recovery and long-term community resilience. All states and units of general local governments with major disasters declared in 2011, 2012, and 2013 were eligible, and HUD announced the finalists on January 21, 2016.

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# Appendix II: Approved Community Development Block Grant Disaster Recovery Activities of the Four Largest 2017 Grantees

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The February 2018 *Federal Register* notice allocating the initial \$7.4 billion in Community Development Block Grant Disaster Recovery (CDBG-DR) funds appropriated for the 2017 disasters requires grantees to use the funds primarily to address unmet housing needs.<sup>1</sup> The initial action plans for the four largest 2017 CDBG-DR grantees—Florida, Texas, Puerto Rico, and the U.S. Virgin Islands—outline the various activities they plan to implement to address unmet needs.<sup>2</sup> These include home buyout and rehabilitation programs to address unmet housing needs, workforce training and business recovery grants to address unmet economic revitalization needs, and the provision of matching funds for FEMA-assisted infrastructure projects to address unmet infrastructure needs.<sup>3</sup>

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## Florida's Approved CDBG-DR Activities

Florida focused its February 2018 CDBG-DR allocation on addressing unmet housing and economic revitalization needs (see table 6).

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<sup>1</sup>See *Allocations, Common Application, Waivers, and Alternative Requirements for 2017 Disaster Community Development Block Grant Disaster Recovery Grantees*, 83 Fed. Reg. 5844 (Feb. 9, 2018).

<sup>2</sup>HUD approved Texas' initial action plan on June 22, 2018; Florida's on June 29, 2018; U.S. Virgin Islands' on July 10, 2018; and Puerto Rico's on July 29, 2018. An August 2018 *Federal Register* notice allocating an additional \$10.03 billion required the Texas, Florida, Puerto Rico, and U.S. Virgin Islands grantees to amend their original action plans to reflect the additional allocation they received through the notice. See *Allocations, Common Application, Waivers, and Alternative Requirements for Community Development Block Grant Disaster Recovery Grantees*, 83 Fed. Reg. 40314 (Aug. 14, 2018). All four grantees were to submit the amended action plan to HUD for its review by November 18, 2018.

<sup>3</sup>FEMA's Public Assistance Program provides grants to tribal, state, and local governments; U.S. territories; and certain private nonprofit organizations to provide emergency protective services, conduct debris removal operations, and repair or replace damaged public infrastructure. Its Hazard Mitigation Assistance program funds mitigation and resiliency projects and programs, including buyouts of frequently flooded properties and retrofitting of facilities. These programs have a cost-sharing requirement that requires grantees to contribute matching funds to cover a portion of the costs of projects funded through these programs.

**Appendix II: Approved Community  
Development Block Grant Disaster Recovery  
Activities of the Four Largest 2017 Grantees**

**Table 6: Florida's Approved CDBG-DR Activities, as of June 29, 2018**

<b>Activity</b>	<b>Description</b>	<b>Dollars allocated</b>	<b>Percent of allocation</b>
<b>Housing activities</b>			
Housing Repair Program	Housing rehabilitation or replacement assistance to owner-occupied homes and rental properties impacted by Hurricane Irma. Assistance under this program includes (1) repairs to or reconstruction or replacement of housing units, (2) repair to or replacement of manufactured homes, (3) completion of work to housing units that have been partially repaired, and (4) temporary housing assistance to homeowners and renters.	273,329,800	44
Workforce Affordable Rental New Construction: Leveraging Other Sources of Financing	Zero-interest forgivable loans to eligible developers and public housing authorities to leverage other sources of funds such as Low-Income Housing Tax Credits to develop new affordable housing rental units. (The tax credits encourage private-equity investment in low-income housing.) These developments must help address the unmet housing needs in areas impacted by Hurricane Irma and areas that experience a population influx because of migration from Puerto Rico and the U.S. Virgin Islands due to Hurricane Maria. New rental housing will have an affordability period of 20 years.	80,000,000	13
Voluntary Home Buyout Program	Voluntary home buyout assistance to encourage risk reduction through the acquisition of residential property in high flood risk areas. The grantee will provide CDBG-DR funding to disaster-affected counties and municipalities that could be used to (1) meet the match requirement of Hazard Mitigation Grant Program projects or (2) work with the grantee to buy out homes in low- and moderate-income areas.	75,000,000	12
Workforce Affordable Rental New Construction Program: Small Rental Developments	Financing small rental developments (those with 50 units or less) through zero-interest forgivable loans. These developments must help address the unmet housing needs in areas impacted by Hurricane Irma and areas that experience a population influx because of migration from Puerto Rico and the U.S. Virgin Islands due to Hurricane Maria. New rental housing will have an affordability period of 20 years.	20,000,000	3
Land Acquisition for Affordable Workforce Housing	Purchasing land for the development of affordable housing.	20,000,000	3
<b>Economic revitalization activities</b>			
Business Recovery Grant Program	Grants for eligible small business owners who are seeking reimbursement for the cost of replacing equipment and inventory damaged by Hurricane Irma.	60,000,000	10
Workforce Recovery Training Program	Training residents for skilled labor jobs that support the state's disaster recovery efforts. Training will be provided on skills such as roofing, masonry, carpentry, plumbing, and electricity.	20,000,000	3
Business Assistance to New Floridians from Puerto Rico	Assistance to help new businesses and entrepreneurs who have migrated from Puerto Rico establish a business in the state. The program could include the provision of the following services: business plan development guidance, accounting and legal assistance, and licensing and permitting guidance.	6,000,000	1

**Appendix II: Approved Community  
Development Block Grant Disaster Recovery  
Activities of the Four Largest 2017 Grantees**

Activity	Description	Dollars allocated	Percent of allocation
<b>State and local administration</b>			
Administration		30,796,100	5
Planning		30,796,100	5
<b>Total</b>		<b>615,922,000</b>	<b>100</b>

Legend: CDBG-DR = Community Development Block Grant Disaster Recovery

Source: Florida Department of Economic Opportunity's approved action plan. | GAO-19-232

Note: Percentages may not sum to 100 because of rounding.

### Texas' Approved CDBG-DR Activities

Texas allocated approximately 45 percent of its February 2018 CDBG-DR allocation to the City of Houston and Harris County to directly administer their own CDBG-DR housing and infrastructure activities. Texas plans to use the majority of the remaining funds to address unmet housing needs in other areas affected by Hurricane Harvey (see table 7).

**Table 7: Texas' Approved CDBG-DR Activities, as of June 22, 2018**

Activity	Description	Dollars allocated	Percent of allocation
City of Houston Direct Program	Direct allocation to the City of Houston, which will administer its own CDBG-DR activities.	1,155,119,250	23
Harris County Direct Program	Direct allocation to Harris County, which will administer its own CDBG-DR activities.	1,115,386,830	22
State project delivery costs	Delivery costs are costs related to carrying out specific activities, such as staff and overhead costs linked directly to an eligible activity (e.g., economic development or housing rehabilitation).	55,074,178	1
<b>Housing activities</b>			
Homeowner Assistance Program	Rehabilitation and reconstruction assistance for owner-occupied single-family homes damaged by Hurricane Harvey.	1,098,011,316	22
Local Buyout and Acquisition Program	Funding for local governments to develop a buyout and acquisition program. HUD defines a buyout as an acquisition of properties that is intended to reduce risk from future flooding or an acquisition of properties located in disaster risk reduction areas designated by the state. Eligible households could receive relocation, down payment, or demolition assistance.	275,620,892	5
Affordable Rental Program	Rehabilitation, reconstruction, and new construction of public housing and affordable multifamily housing projects in areas impacted by Hurricane Harvey.	250,000,000	5
Homeowner Reimbursement Program	Reimbursement of eligible expenses incurred by homeowners for repairs to a primary residence.	100,000,000	2

**Appendix II: Approved Community  
Development Block Grant Disaster Recovery  
Activities of the Four Largest 2017 Grantees**

<b>Activity</b>	<b>Description</b>	<b>Dollars allocated</b>	<b>Percent of allocation</b>
Partial Repair and Essential Power for Sheltering Program	Cover the nonfederal share associated with the Partial Repair and Essential Power for Sheltering Program, which is primarily funded with FEMA funds and provides immediate temporary repairs to homes that sustained less than \$17,000 in losses.	72,675,000	2
<b>Economic revitalization activities</b>			
Economic Revitalization Program	Interim assistance to businesses impacted by Hurricane Harvey through deferred forgivable loans in exchange for job creation or retention of low- and moderate-income employees.	100,000,000	2
<b>Infrastructure activities</b>			
Local Infrastructure Program	Assistance for the restoration of infrastructure for local communities impacted by Hurricane Harvey. Eligible activities include direct repair of damaged facilities, FEMA cost share and mitigation, and water and flood control facilities.	413,431,338	8
<b>State administration</b>			
Administration		251,210,750	5
Planning		137,685,446	3
<b>Total</b>		<b>5,024,215,000</b>	<b>100</b>

Legend: CDBG-DR = Community Development Block Grant Disaster Recovery; FEMA = Federal Emergency Management Agency; HUD = Department of Housing and Urban Development

Source: Texas General Land Office's approved action plan. | GAO-19-232

**Puerto Rico's Approved CDBG-DR Activities** Puerto Rico plans to use over 75 percent of its February 2018 CDBG-DR allocation to address unmet housing and economic revitalization needs (see table 8).

**Table 8: Puerto Rico's Approved CDBG-DR Activities, as of July 29, 2018**

<b>Activity</b>	<b>Description</b>	<b>Dollars allocated</b>	<b>Percent of allocation</b>
<b>Housing activities</b>			
Home Repair, Reconstruction, or Relocation Program	Assistance to repair damaged homes or rebuild substantially damaged homes outside high-risk areas. Homeowners with substantially damaged homes located in high-risk areas will be provided relocation assistance to either purchase and rehabilitate an existing housing unit or build a housing unit outside of a high-risk area.	775,570,050	51
CDBG-DR Gap to Low-Income Housing Tax Credits	Gap financing through grants and loans for properties being developed with Low-Income Housing Tax Credits. (The tax credits encourage private-equity investment in low-income housing.)	100,000,000	7
Mortgage Catch-up Program	Mortgage payment assistance for up to 100 percent of the principal, interest, tax, and insurance in arrears for up to 12 months (dating back to when Hurricane Maria impacted Puerto Rico).	45,000,000	3

**Appendix II: Approved Community  
Development Block Grant Disaster Recovery  
Activities of the Four Largest 2017 Grantees**

<b>Activity</b>	<b>Description</b>	<b>Dollars allocated</b>	<b>Percent of allocation</b>
Home Energy Resiliency	Voucher assistance for the purchase and installation of a gas or solar powered water heater and gas powered stove so residents can perform basic functions such as showering and preparing meals at home in the event of a power outage.	36,000,000	2
Title Clearance Program	Legal services to provide title clearance assistance to homeowners.	25,000,000	2
Social Interest Housing	Construction of housing units for special needs populations such as individuals experiencing homelessness, senior citizens, individuals with a disability, persons living with HIV/AIDS, and individuals recovering from addiction.	12,500,000	1
Rental Assistance Program	Temporary rental assistance for up to 24 months to residents of storm-impacted areas who are experiencing homelessness or are at risk of becoming homeless.	10,000,000	1
Housing Counseling Program	Wraparound educational services to promote understanding of housing and financial options such as financial literacy education, homeowner counseling, credit repair counseling, and mitigation of default or foreclosure proceedings.	7,500,000	1
<b>Economic revitalization activities</b>			
Small Business Financing	Loans, very small grants, or forgivable loans to start-up, newly established, or growing small businesses for economic development purposes and creation or retention of jobs.	50,000,000	3
Construction and Commercial Revolving Loan	Revolving loans for start-up and mobilization capital to qualifying businesses participating in the recovery effort.	35,000,000	2
Strategic Projects and Commercial Redevelopment	The acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial structures.	25,000,000	2
Tourism and Business Marketing Program	Development of a marketing effort to promote Puerto Rico's tourism and business industries. The projected use of funds for marketing and outreach efforts will be focused on advertising creation and media placement such as television, radio, and digital advertising outside of Puerto Rico.	15,000,000	1
Small Business Incubators and Accelerators	Supportive services to start-up or new business such as providing access to shared office spaces and operational resources such as office equipment, telecommunication services, technical assistance, and conference space.	10,000,000	1
Workforce Training Program	Assist unemployed and underemployed residents find employment by providing job training in skill areas related to recovery efforts such as building code enforcement, construction, and lead risk and abatement.	10,000,000	1
<b>Infrastructure activities</b>			
Federal Emergency Management Agency Coordination	Local match requirements of FEMA's Public Assistance Program and Hazard Mitigation Grant Program. (The Public Assistance Program addresses repairs to communities' and states' infrastructure, and the Hazard Mitigation Grant Program provides funding for projects a state submits to reduce the threat of future damage.)	100,000,000	7



**Appendix II: Approved Community  
Development Block Grant Disaster Recovery  
Activities of the Four Largest 2017 Grantees**

<b>Activity</b>	<b>Description</b>	<b>Dollars allocated</b>	<b>Percent of allocation</b>
<b>State administration</b>			
Administration		75,358,950	5
Planning		175,250,000	12
<b>Total</b>		<b>1,507,179,000</b>	<b>100</b>

Legend: AIDS = acquired immunodeficiency syndrome; CDBG-DR = Community Development Block Grant Disaster Recovery; FEMA = Federal Emergency Management Agency; HIV = human immunodeficiency virus

Source: Puerto Rico Department of Housing's approved action plan. | GAO-19-232

Note: Percentages may not sum to 100 because of rounding.

**U.S. Virgin Islands'  
Approved CDBG-DR  
Activities**

The U.S. Virgin Islands' plans to use about 42 percent of its February 2018 CDBG-DR allocation to address unmet housing and economic revitalization needs (see table 9).

**Table 9: U.S. Virgin Islands' Approved Community Development Block Grant Disaster Recovery Activities, as of July 10, 2018**

<b>Activity</b>	<b>Description</b>	<b>Dollars allocated</b>	<b>Percent of allocation</b>
<b>Housing activities</b>			
Public & Affordable Housing Development	Rehabilitation or construction of affordable rental housing units, including subsidized and mixed income rental units.	32,000,000	13
Supportive Housing for Vulnerable Populations	Rehabilitation and reconstruction of homes, development of new housing, and provision of supportive services to vulnerable populations such as the elderly, individuals with a disability, and individuals experiencing homelessness.	15,000,000	6
Homeowner Rehabilitation and Reconstruction Program	Grants for the rehabilitation or reconstruction of storm-damaged residential owner-occupied units.	10,000,000	4
New Construction for Homeownership Opportunity and First Time Homebuyer Assistance	Construction of homes for first-time homebuyers and provision of second mortgage loans to first-time homebuyers.	10,000,000	4
Rental Rehabilitation and Construction	Forgivable construction loans to owners of rental housing to rehabilitate and reconstruct disaster-impacted rental units.	5,000,000	2
<b>Economic revitalization activities</b>			
Ports and Airports Enhancement Program	Expansion of port capacity (through dredging and adding berthing space) and improvements to the airport's passenger processing infrastructure.	23,000,000	9
Tourism Industry Support Program	Development of a marketing strategy that includes a marketing campaign and technical assistance to small businesses and entrepreneurs to support the territory's tourism industry.	5,000,000	2
Workforce Development Program	Workforce training and job placement services. The initial focus of the program is to train low- and moderate-income individuals to fill construction and other disaster recovery-related jobs.	5,000,000	2

**Appendix II: Approved Community  
Development Block Grant Disaster Recovery  
Activities of the Four Largest 2017 Grantees**

<b>Activity</b>	<b>Description</b>	<b>Dollars allocated</b>	<b>Percent of allocation</b>
<b>Infrastructure activities</b>			
Local Match for Federal Disaster Relief Program	To meet the local match requirement for federally-funded projects related to the disaster, including the infrastructure projects under the Federal Emergency Management Agency's Public Assistance Program. (The Public Assistance Program addresses repairs to communities' and states' infrastructure.)	50,549,800	21
Electrical Power Systems Enhancement and Improvement Program	Enhancement of the territory's electrical power system such as by repairing and reconstructing energy infrastructure, hardening energy infrastructure, and instituting mitigation measures to prevent or reduce service disruptions.	45,000,000	19
Infrastructure Repair and Resilience Program	Repair and replacement of damaged public infrastructure (such as nonfederal roads), hardening of infrastructure against extreme weather events, and construction of new infrastructure to connect to or improve the delivery of public services (such as building new trenches to bury or expand utilities).	30,000,000	12
<b>State administration</b>			
Administration		12,134,200	5
Planning		0	0
<b>Total</b>		<b>\$242,684,000</b>	<b>100</b>

Source: U.S. Virgin Islands' approved action plan. | GAO-19-232

Note: Percentages may not sum to 100 because of rounding.

# Appendix III: Status of 2012 and 2013 Community Development Block Grant Disaster Recovery Grants

Congress appropriates Community Development Block Grant Disaster Recovery (CDBG-DR) funds to help states recover from federally declared disasters. Once Congress appropriates CDBG-DR funds, the Department of Housing and Urban Development (HUD) is responsible for allocating the funds to designated grantees in affected areas. According to HUD officials, most expenditure activity in CDBG-DR grants occurs within the first 6 years of the grant.<sup>1</sup> As shown in table 10, of the 50 grants at or approaching the 6-year mark, 9 grantees had expended less than half of the funds.

**Table 10: Percentage of Community Development Block Grant Disaster Recovery Grants Awarded in 2012 and 2013 That Had Been Expended as of January 1, 2019**

Grantee	Award year	Grant award (in dollars)	Percent expended
North Dakota	2013	6,576,000	100
North Dakota	2012	11,782,684	100
Texas	2013	5,061,000	100
Luzerne County, Pennsylvania	2013	9,763,000	100
Vermont	2012	21,660,211	100
Illinois	2013	10,400,000	99
Missouri	2012	8,719,059	99
Minot, North Dakota	2013	35,056,000	99
Missouri	2013	11,844,000	97
Massachusetts	2013	7,210,000	97
Alabama	2012	24,697,966	97
Dauphin County, Pennsylvania	2013	7,632,000	97
Vermont	2013	17,932,000	96
New Jersey	2012	15,598,506	96
Alabama	2013	49,157,000	95
Tuscaloosa, Alabama	2013	43,932,000	91
Oklahoma	2013	93,700,000	90
Minot, North Dakota	2012	67,575,964	90
Luzerne County, Pennsylvania	2012	15,738,806	85
Chicago, Illinois	2013	63,075,000	84
Town of Union, New York	2012	10,137,818	84

<sup>1</sup>According to HUD officials, since 2015 HUD has required CDBG-DR grantees to expend their funds within 6 years of signing their grant agreements.

**Appendix III: Status of 2012 and 2013  
Community Development Block Grant Disaster  
Recovery Grants**

<b>Grantee</b>	<b>Award year</b>	<b>Grant award (in dollars)</b>	<b>Percent expended</b>
Joplin, Missouri	2013	113,276,000	84
Dauphin County, Pennsylvania	2012	6,415,833	82
Rhode Island	2013	19,911,000	82
Connecticut	2013	149,279,000	82
Maryland	2013	28,640,000	80
New York	2013	4,231,882,000	79
New Jersey	2013	3,794,429,000	79
New York City, New York	2013	3,858,876,000	78
Louisiana	2013	64,379,084	77
Texas	2012	31,319,686	76
Joplin, Missouri	2012	45,266,709	73
New Orleans, Louisiana	2013	15,031,000	72
DuPage County, Illinois	2013	31,526,000	70
Colorado	2013	320,346,000	68
Tennessee	2013	13,810,000	68
Jefferson County, Alabama	2013	9,142,000	65
Moore, Oklahoma	2013	52,200,000	62
Springfield, Massachusetts	2013	21,896,000	58
Birmingham, Alabama	2012	6,386,326	58
Tuscaloosa, Alabama	2012	16,634,702	50
St. Tammany Parish, Louisiana	2013	10,914,916	47
Birmingham, Alabama	2013	17,497,000	44
Cook County, Illinois	2013	83,616,000	42
Pennsylvania	2012	27,142,501	42
Jefferson County, Alabama	2012	7,847,084	32
Jefferson Parish, Louisiana	2013	16,453,000	24
Pennsylvania	2013	29,986,000	21
Orange County, New York	2012	11,422,029	15
New York	2012	71,654,116	8

Source: GAO analysis of HUD data. | GAO-19-232

Note: We excluded 13 grants that were awarded under HUD's National Disaster Resilience Competition, which awarded almost \$1 billion in funds for disaster recovery and long-term community resilience. All states and units of general local governments with major disasters declared in 2011, 2012, and 2013 were eligible, and HUD announced the finalists on January 21, 2016.

# Appendix IV: Comments from the Department of Housing and Urban Development



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY  
PLANNING AND DEVELOPMENT

MAR - 1 2019

Mr. Daniel Garcia-Diaz  
Director, Financial Markets and  
Community Development  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Garcia-Diaz:

This letter provides the Department's response to the recent Government Accountability Office (GAO) draft report entitled "*Disaster Recovery: Better Monitoring of Block Grant Funds is Needed*" (GAO-19-232). The Department appreciates the opportunity to respond to the recommendations for executive action identified in the draft report.

The Department's observation is that portions of the draft report and several related recommendations leave an erroneous impression. The concern is that the draft report implies that the Department has no standards for the review of action plans, needs assessments, financial controls, procurement processes, and grant management procedures that grantees develop. While HUD agrees that further enhanced guidance will assist HUD staff and grantees in the review of financial controls, procurement processes, and grant management procedures, HUD disagrees with the assertion in GAO's recommendations that CPD needs to "develop standards," as these standards already exist.

First, the Office of Community Planning and Development (CPD), in partnership with HUD's Departmental Enforcement Center (DEC), has revised and refined the process for reviewing the adequacy of financial controls, procurements and grants management. The *Federal Register* Notice governing the initial funds appropriated for the 2017 disasters (Public Law 115-156) published on February 9, 2018, (83 FR 5844), indicates that a grantee has proficient financial management controls, procurement processes, duplication of benefits policies, processes for timely expenditures, and policies to maintain a comprehensive disaster recovery website; and procedures to detect and prevent fraud, waste, and abuse if the grantee submits the following information to HUD for review:

- 1a) its most recent single audit and consolidated annual financial report which indicates that grantee has no material weakness;
- 1b) an assessment of its financial standards, a compliance certification, and supporting documentation identifying the standards;
- 2) procurement process/standards and a legal opinion that the grantee has proficient procurement policies and procedures;
- 3) uniform processes that the grantee will follow to identify any duplication of benefits as

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required by the appropriations statute;

- 4) procedures that indicate to HUD how the grantee will track expenditures and procedures that address other financial oversight requirements;
- 5) procedures that indicate that the grantee will have a separate web page dedicated to its disaster recovery activities; and
- 6) procedures that indicate how the grantee will verify the accuracy of information.

The appropriation governing these funds requires that HUD certify to the "proficiency" of grantee financial controls and procurement processes and the *Federal Register* Notice defines the standard for HUD to use when determining the proficiency of financial controls, procurement processes and grant management procedures. The Department developed a formal checklist to be used by CPD and DEC staff which identifies the specific items that were required to be captured in each of these procedural areas. Nevertheless, the Department agrees that additional guidance to reviewers on defining the specific conditions that must exist within these documents would improve the proficiency determination.

Similarly, the Department has defined the standards for HUD staff to use when assessing the adequacy of the capacity and unmet needs assessments developed by grantees. The February 9, 2018, Notice provides that CDBG-DR grantees must submit an Implementation Plan that enables the Department to assess risk. The plan must describe the grantee's capacity to carry out the recovery and how it will address any capacity gaps. The Notice provides that HUD will determine an Implementation Plan to be adequate to reduce risk if it addresses the following items:

- 1) Capacity Assessment. The grantee has conducted an assessment of its capacity to carry out CDBG-DR recovery efforts and has developed a timeline with milestones describing when and how the grantee will address all capacity gaps that are identified;
- 2) Staffing. The plan shows that the grantee has assessed staff capacity and identified personnel;
- 3) Interagency Coordination. The plan describes how the grantee will ensure effective communication between different departments and divisions within its organizational structure that are involved in CDBG-DR-funded recovery efforts;
- 4) Technical Assistance. The grantee's implementation plan describes how it will procure and provide technical assistance for any personnel that the grantee does not employ at the time of action plan submission; and
- 5) Accountability. The grantee's plan identifies the lead agency responsible for implementation of the CDBG-DR award and indicates that the head of that agency will report directly to the chief executive officer of the jurisdiction.

For each of the standards described above, HUD staff review source documentation (e.g., grantee staffing plans) that describe the grantee's efforts to comply with the standard. HUD provided examples of e-mail exchanges wherein the Department identified instances where grantees were directed to revise information to clarify the information provided or directed grantees to provide information because the grantee's source documentation did not address the standard. Nevertheless, the Department agrees that additional guidance for HUD staff on defining the specific conditions that must exist within these documents would improve the review of grantee capacity as part of the Implementation Plan.

With respect to the discussion of the assessment of unmet needs, the draft report blends the discussion of HUD's use of Federal Emergency Management Agency (FEMA) and Small Business Administration (SBA) data to determine the allocation of CDBG-DR unmet needs funding with the grantee's assessment of unmet needs. The Notice describes the Department's methodology for allocating the CDBG-DR funds for the initial CDBG-DR awards for 2017 disasters under Public Law 115-56. However, the second appropriation for 2017 disasters (Public Law 115-123) directed HUD to provide a minimum of \$11 billion for Puerto Rico and the Virgin Islands for unmet needs. As a result, the Department's standard methodology for determining the allocation based on unmet needs data was rendered moot by the appropriation's allocation directive. The draft report does not acknowledge the appropriation language, but it is a critical piece in understanding the allocation of funds toward unmet needs associated with 2017 disasters.

Contrary to statements in the draft report, HUD has instituted standards for the evaluation of unmet disaster recovery needs. Although the GAO cites its 2010 research indicating that grantees are not required to align their housing activities with the needs of the affected communities, HUD has implemented requirements, beginning with the Hurricane Sandy appropriation, that direct grantees to ensure that CDBG-DR funding allocations are reasonably proportionate to the total remaining unmet needs for housing, infrastructure, and economic revitalization (see 78 FR 14329). For the 2017 CDBG-DR grantees, the February 9, 2018, Notice directs grantees to propose an allocation of CDBG-DR funds that primarily considers unmet housing needs. Grantees were required to provide a description of the connection between identified unmet needs and the allocation of CDBG-DR resources. Each grantee must develop a needs assessment to understand the type and location of community needs and to target limited resources to those areas with the greatest need. Grantees must cite data sources, but these include local data sources when grantees are describing post-disaster needs. Nevertheless, HUD agrees that there is an opportunity to improve the consistency and documentation of HUD review of action plans, including the grantee's unmet needs assessment. Similarly, HUD will require staff to better document their analysis of financial controls, procurement processes, and grant management procedures and capacity and unmet needs assessments.

The draft report indicates that HUD does not have a CDBG-DR staffing or monitoring plan. Significant actions are in motion with respect to staffing for the CDBG-DR effort. These actions have accelerated subsequent to HUD's 35-day shutdown due to an appropriations lapse from December 22, 2018, through January 26, 2019. The Disaster Recovery and Special Issues Division, which administers the CDBG-DR funds, has developed a staffing plan to address long-term oversight and management of the CDBG-DR portfolio. While formal acceptance of this plan is pending, CPD is moving ahead and currently has 14 positions in the hiring queue for the Division with the expectation of having the additional staff added incrementally over the next three months. Further, as full year funding for FY 2019 has been appropriated for HUD as of January 26, 2019, CPD has identified an approach to secure 20 additional positions in support of CDBG-DR. CPD expects to finalize this commitment in the next few weeks as it secures necessary approvals from Departmental financial and human capital officials.

Concurrently, the annual CDBG-DR monitoring plan was scheduled for completed in December 2018 but was delayed during the appropriations lapse but was completed subsequent to HUD being funded in late January 2019. The monitoring plan is attached (Attachment A). The Department is firmly committed to the oversight responsibilities for this significant portfolio of grants. CPD has also begun identifying monitoring strategies for all monitoring reviews that will

occur in the March 2019 through May 2019 timeframe and will develop the remaining strategies after the initial monitoring reviews.

While the monitoring plan and staffing plans were not available to the GAO prior to the completion of the Department's risk analysis and preliminary staffing discussion, HUD agrees that a comprehensive monitoring plan and workforce planning are necessary to effectively manage the growing portfolio of CDBG-DR grants

Additionally, the draft report references multiple audits done by the HUD Office of Inspector General (OIG) on grantee procurement practices and creates a link between these audits and HUD's review of grantee financial processes and procedures as well as grantee capacity. There has been a protracted disagreement between HUD and the OIG regarding the procurement requirements that may be imposed upon State recipients of CDBG-DR funds, specifically the definition of the word "equivalent." The most recent resolution of this disagreement came in the form of a decision memorandum from former HUD Deputy Secretary Nani Coloretti, dated January 10, 2017, supported by an Office of General Counsel legal opinion. These items clearly support CPD's position that States have the authority to follow their own procurement standards. Recent *Federal Register* Notices have provided additional clarification of the procurement standards (83 FR 5844).

Similarly, on page 13 of the draft report, the GAO cites the HUD OIG's audit of Florida's CDBG-DR grants. In this example, the OIG cited a bookkeeping error made, discovered, and corrected by the State of Florida, prior to the OIG audit. The State's discovery of its own error and the State's independent correction of the error is evidence that the State's financial policies and capacities are functioning effectively. The draft report also cites other OIG audits that CPD and the OIG have either agreed upon and closed findings or where fundamental disagreements remain. The draft report captures the Findings of the OIG audit, but does not cite or consider the Department's response or actions that have been taken to resolve the Findings.

In reviewing grantee performance, the draft report includes a simplified analysis of CDBG-DR grant performance that dismisses the Department's determination that disbursements from a CDBG-DR grant are substantially complete after six years from the effective date of the grant agreement. The GAO's analysis excludes four grants that have completed activities and are closed-out. The GAO also included 13 National Disaster Resilience (NDR) grants which were competitively awarded in January of 2016 and have contract effective dates ranging from late 2016 to early 2017, and seven Rebuild by Design (RBD) grant agreements, which have contract effective dates of mid-2015. Most importantly, the 22 grantees cited in the draft report, with disbursements under 50 percent, include all 13 of the NDR grants. Further, the remaining 46 active grants cited in the draft report received grant awards between April 2012 and January 2015 and have contract effective dates ranging from October 2012 through July 2015. Given the two to three-year interval between the initial awards and the NDR and RBD awards, and the extensive public, interjurisdictional planning process required by these trailblazing disaster mitigation projects, it is not reasonable to include these in an evaluation of the other, more typical, disaster recovery programs. Excluding the NDR grants and the RBD allocations, the six-year expenditure rule may be fairly applied to 50 grants which are identified in the attachment.

When the six-year test is applied to these 50 grants (46 active disaster grants + four closed grants), only nine grants (18 percent) did not disburse more than 50 percent of their grant funds within six years of their first contract effective date. In fact, all 13 grantees from the Hurricane



Sandy appropriation (referred to as B-13 grantees) with multiple allocations spent 100 percent of their initial award amount within six years of their first contract effective date [see attached chart, "All B-13 Grantee Performance"]. While it is true that some smaller award grantees will not meet this six-year target performance period, the Department's analysis of actual grant performance indicates that this rule reflects the performance of most grantees and providing for the expenditure of grant funds within this time frame provides an important and tangible incentive for grantee's to launch and complete their recovery efforts in a timely manner.

The Department appreciates your team's work on this draft report and its focus on the important topic of long-term disaster recovery. The enclosures provide additional information which should be informative for purposes of completing the report. If you have any questions regarding this response, please contact me at (202) 708-2111.

Sincerely,



Stanley Gimont  
Deputy Assistant Secretary  
for Grant Programs

Enclosures

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

Daniel Garcia-Diaz, (202) 512-8678 or [garciadiazd@gao.gov](mailto:garciadiazd@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Paige Smith (Assistant Director), Josephine Perez (Analyst in Charge), Meredith Graves, Raheem Hanifa, Joe Maher, John McGrail, Marc Molino, Tovah Rom, and Michael Silver made key contributions to this report.

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