



OFFICE of
INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Financial Information Collected From CDBG Grantees Needs Improvement

Audit Report Number: 2024-FO-0004

February 9, 2024

To: Marion McFadden
Principal Deputy Assistant Secretary for CPD, D

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//signed//

From: Kilah S. White
Assistant Inspector General for Audit, Office of Inspector General, GA

Subject: Financial Information Collected From CDBG Grantees Needs Improvement (2024-FO-0004)

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Community Development Block Grant (CDBG) program grantee Federal financial reporting.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call Brittany Wing, Audit Director, at (202) 402-2467.

Highlights

Financial Information Collected From CDBG Grantees Needs Improvement | 2024-FO-0004

What We Audited and Why


We audited the U.S. Department of Housing and Urban Development (HUD), Office of Community Planning and Development's (CPD) process for collecting financial information from grantees participating in the Community Development Block Grant (CDBG) Entitlement program. Prior-year HUD financial statement audits found weaknesses in CPD's processes to estimate accrued grant liabilities and instances in which it appeared that CDBG grantees were holding advanced funds. Our audit objectives were to determine whether (1) the financial information collected from grantees was sufficient to monitor grantee financial reporting and performance as required by Federal regulations; (2) HUD's monitoring of grantees' cash on hand was sufficient to ensure compliance with cash management requirements and that the monitoring was adequate to safeguard funds against the risk of fraud, waste, and abuse; and (3) HUD was properly reporting the financial information collected from its grantees in accordance with the Statements of Federal Financial Accounting Standards.

What We Found

The financial information collected from CDBG Entitlement grantees was not sufficient to monitor grantee compliance with cash management requirements contained in Federal regulations. Our review of CPD Cash on Hand Quarterly Reports (PR 29 reports) found that grantees consistently made errors in preparing the report or did not have adequate documentation to support the amounts reported. We also found PR 29 reports that were not submitted or were submitted after the required deadline for certain quarters and resubmissions that were not tracked by HUD. Without reliable and timely financial data, CPD cannot adequately monitor grantees' excess cash or properly assess their compliance with cash management requirements, thereby increasing the funds' susceptibility to the risk of fraud, waste, and abuse. Further, since the reports were not submitted in a timely manner and were not reliable, the information collected could not be leveraged by the Office of the Chief Financial Officer (OCFO) to properly report grantee financial information in compliance with the Statements of Federal Financial Accounting Standards.

Additionally, we found opportunities for CPD to improve (1) the timing of grantee drawdowns to better align with when the expense was incurred and (2) its financial data collection efforts regarding its CDBG grantees to estimate HUD's accrued grant liability as required by the Statements of Federal Financial Accounting Standards. CPD's accrued grant liability estimation methodology relied on grantee drawdown data and produced an unreliable estimate due to the significant delays in grantee disbursements from when expenses were incurred. Further, CPD did not collect expense data elements¹ from the U.S. Office of Management and Budget's (OMB) Federal Financial Report (Standard Form (SF)-425), which could

¹ By expense data elements, we refer to lines 10e, Federal Share of Expenditures, and 10f, Federal Share of Unliquidated Obligations, of the SF-425.



potentially be used to assist HUD in producing a more precise accrual estimate, resulting in improved financial reporting.

Lastly, we identified that CPD collected information on the PR 29 report that was not approved by OMB as required by the Paperwork Reduction Act (PRA). As a result, CPD did not receive public input as required, nor did it assess the reporting burden imposed on the grantee as required by PRA.

What We Recommend

We recommend that CPD improve its guidance, training, and monitoring of the PR 29 report to ensure that the information collected is reliable, accurate, and timely. In addition, we recommend that CPD work with OCFO to ensure that it collects all of the information needed to properly account for all CPD activities in HUD's financial statements in accordance with Federal financial reporting requirements and accounting standards. Lastly, we recommend that CPD obtain the required approvals under PRA for the PR 29 report.

Table of Contents

Background and Objectives	1
Results of Audit	3
CDBG Entitlement Grantees' Cash on Hand Reporting to HUD Was Not Reliable or Timely	3
Opportunities Exist for CPD To Improve Its Grantee Financial Management To Advance HUD's Financial Reporting	7
CPD Did Not Obtain Required Approvals Under the Paperwork Reduction Act Before Requiring the PR 29 Report	11
Scope and Methodology	12
Appendixes	14
Appendix A – Auditee Comments and OIG's Evaluation	14

Background and Objectives

Federal agencies are responsible for protecting tax dollars by developing and maintaining governance structures, controls, and processes to safeguard resources and assets. Grant-making agencies must establish oversight processes to help ensure that grantees use Federal funds effectively, efficiently, and for the intended purpose. To meet this responsibility, agencies establish Federal financial reporting requirements for grantees to collect financial information related to grantees' use of award funds. The reporting requirements vary by program but typically include data about grantee expenses, program income, and cash on hand. To standardize grantee reporting, the U.S. Office of Management and Budget (OMB) designed the Federal Financial Report (Standard Form (SF)-425) by providing an approved pool of data elements from which Federal awarding agencies may choose to establish their grantee Federal financial reporting.²

Grantee financial reporting to HUD is an essential component of HUD's financial reporting. Federal accounting standards require agencies to recognize and report balances due from or advanced to grantees at the end of the reporting period, which includes estimating and recognizing an accrued grant liability for the eligible expenses that grantees have incurred as of the reporting date but have not yet reported to the agencies. Reliable grantee financial data are needed for agencies to produce accurate accrued grant liability estimates. Since fiscal year (FY) 2014, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), has reported deficiencies in HUD's process to estimate and validate its accrued grant liability, which in combination with other deficiencies, has been reported as a material weakness in internal controls over financial reporting.³ These deficiencies have been attributed to flaws in the Office of Community Planning and Development's (CPD) methodology for the estimation of accrued grant liabilities and the limited collection of grantee financial data. The existence of material weaknesses in internal control over financial reporting impacts the reliability of agency financial statements, causing them to be ineffective for its users⁴ to assess the agency's budgetary integrity, stewardship, and operating performance, thereby impacting public accountability.

The Community Development Block Grant (CDBG) Entitlement program provides annual grants on a formula basis to the more than 1,200 entitled cities and counties 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. In fiscal year 2022, Entitlement communities disbursed \$2.6 billion in CDBG funds.

When establishing financial reporting requirements for the CDBG Entitlement program, CPD decided to collect only the standardized cash on hand data elements of SF-425 and excluded the data elements related to grantee expenses CPD deemed unnecessary. Starting in Federal FY 2020, CPD began using the Integrated Disbursement and Information System (IDIS) Cash on Hand Quarterly Report (PR 29 report) to collect CDBG Entitlement grantee cash on hand balances, replacing the submission of the SF-425. The PR 29 report includes data elements related to the receipt and disbursement of grant funds, program

² 2 CFR (Code of Federal Regulations) 200.328

³ A material weakness in internal control over financial reporting occurs when a deficiency or combination of deficiencies is so severe that there is a reasonable possibility that management will not prevent or detect and correct a material misstatement in the financial statements in a timely manner. Deficiencies in HUD's accrued grant liability processes have been reported in the following HUD OIG reports: 2015-FO-0002, 2016-FO-0003, 2017-FO-0003, 2018-FO-0004, 2019-FO-0003, 2020-FO-0003, 2021-FO-0003, 2022-FO-0004, and 2023-FO-0004.

⁴ Users of agency financial statements include the public, Federal executives, Federal managers, and Congress.

income, and revolving funds and calculates each grantee's cash on hand based on these data elements. CPD uses this information to monitor grantee cash management practices to ensure that Federal cash is not held in excess of grantees' immediate disbursing needs⁵ and that excess balances are promptly returned to the U.S. Department of the Treasury. Compliance with these requirements minimizes unnecessary drawdowns and their related interest costs on the Federal Government's national debt⁶ and reduces the funds' susceptibility to the risk of fraud, waste, and abuse.

Our objectives were to determine whether (1) the financial information collected from CDBG Entitlement grantees was sufficient to monitor grantee financial reporting and performance as required by the CDBG program (24 CFR (Code of Federal Regulations) 570.502) and the Uniform Administrative Requirements (2 CFR part 200); (2) HUD was properly reporting this information in accordance with the Statements of Federal Financial Accounting Standards; and (3) HUD's monitoring of grantees' excess cash on hand was sufficient to ensure compliance with cash management requirements (2 CFR 200.305b) and safeguard funds against the risk of fraud, waste, and abuse.

⁵ As a general standard, grantees should disburse the funds to pay for program costs within 3 business days of the receipt of those funds.

⁶ The Federal Government pays interest on its national debt. Federal spending contributes to the national debt and, therefore, has an associated interest cost. When funds are drawn by grantees before they are needed, the Federal Government starts paying interest before receiving the benefit.

Results of Audit

CDBG Entitlement Grantees' Cash on Hand Reporting to HUD Was Not Reliable or Timely

CDBG Entitlement grantees did not report the funds they had drawn down from HUD but not yet used accurately or in a timely manner. Our review of CPD's PR 29 reports found that grantees made errors in preparing the report or did not have adequate documentation to support the amounts reported in IDIS. We also found PR 29 reports that were not submitted or were submitted after the required deadline for certain quarters and resubmissions that were not tracked by HUD. We attribute these issues to the lack of (1) comprehensive guidance and training from CPD on how grantees should prepare the PR 29 report, (2) financial management monitoring coverage of CDBG Entitlement grantees conducted by CPD, (3) written procedures to periodically monitor and track grantees' PR 29 report submissions, and (4) controls to preserve prior submissions for record-keeping purposes when designing the PR 29 report in IDIS. Without reliable PR 29 report data, CPD cannot determine whether grantees are holding funds in excess of their immediate needs or properly assess their compliance with cash management requirements,⁷ thereby increasing the funds' susceptibility to the risk of fraud, waste, and abuse. Further, reliable and timely PR 29 reports could be leveraged by the Office of the Chief Financial Officer (OCFO) to aid in ensuring that HUD's financial reporting responsibilities are met and comply with Federal generally accepted accounting principles.

PR 29 Reports Were Not Accurate or Lacked Adequate Supporting Documentation

Our review of CPD's PR 29 reports found that grantees made errors in preparing the report or did not have adequate documentation to support the amounts reported in IDIS. To perform our review, we selected two groups of samples of PR 29 reports for the quarter ending June 30, 2022, using a nonstatistical sampling method for the first group and a statistical sampling method for the second group.⁸

⁷ Regulations at 2 CFR 200.305(b) require and that advance payments be limited to the minimum amounts for the immediate needs of the recipient and be timed to be in accordance with the expense.

⁸ We selected two groups of samples because we noted that a significant portion of the total cash on hand reported in the third quarter of FY 2022 was attributed to a small number of grantees and we were especially interested in determining whether these large cash on hand balances were accurate. For the first group, we nonstatistically selected 31 PR 29 reports with large balances (cash on hand balance of \$2 million or more) from the sample universe of 1,021, which reported a combined total cash on hand balance of \$111 million. We then statistically selected 66 samples from the remaining 990 reports, which reported a combined total cash on hand balance of \$8 million. We sent a questionnaire to all of the selected grantees, requesting that they respond and provide supporting documentation, to determine the reliability of the information reported.

Our review of the grantees with a cash on hand balance of \$2 million or more found that 25 of 31, or 80.6 percent, did not accurately report to HUD, did not have adequate supporting documentation, or both.⁹ Specifically,

- 25 grantees made errors in preparing the PR 29 report, including entering amounts into incorrect fields and using incorrect beginning balances, drawdowns, and expense amounts.
- 2 grantees did not have adequate documentation to support the amounts reported.

Our review of the grantees with a cash on hand balance of less than \$2 million found that 18 of 66 reports were either not accurate or did not have adequate supporting documentation.⁹ Using a statistical projection, we can project that similar errors can be found in 18.3 percent of such grantees. Specifically,

- 17 grantees made errors in preparing the PR 29 report, including entering amounts into incorrect fields and using incorrect beginning balances, drawdowns, and expense amounts.
- 2 grantees did not have adequate documentation to support the amounts reported.

The grantees that prepared the PR 29 reports with errors did not understand the report fields or did not apply care when preparing the reports and records. For example, some grantees did not understand the cash on hand definition and believed that the cash on hand balance was the balance available for drawdowns, as shown in IDIS (cash sitting at HUD), instead of the unused Federal cash sitting in their bank accounts (cash on hand at the grantee level).

The grantees that did not provide adequate supporting documentation did not maintain sufficient or timely records that would support the grantees' compliance with Federal requirements that they maintain accounting systems capable of (1) providing an accurate, current, and complete disclosure of the financial results of the Federal award and (2) showing that the funds had been used according to the Federal statutes, regulations, and terms and conditions of the Federal award. One grantee that submitted a PR29 report with errors told us that it drew down funds totaling \$41,868 in error and did not notify CPD or return the funds until our inquiry. We confirmed that the funds were remitted to the grantee's line of credit in February 2023 based on our audit.

We attribute these issues to the following:

- Lack of comprehensive guidance and training: To date, CPD has issued only one guidance document in December 2019, entitled "Instructions for IDIS Cash on Hand Quarterly Report," which contains high-level instructions for grantees to follow when completing the PR 29 report.
- Insufficient monitoring of PR 29 reports: Although the instructions for the PR 29 report state that field offices will review the PR 29 report's completeness and accuracy, CPD had not developed written procedures to conduct these reviews. Further, the CPD Monitoring Handbook (6509.2)

⁹ In some cases, the reports were not accurate, and the grantee did not have adequate supporting documentation. Therefore, in the listing below, some grantees were included in both categories.

had not been updated to incorporate the review of the PR 29 report as part of the financial management monitoring reviews.

If the information collected in the PR 29 report is not reliable, CPD cannot determine whether grantees are holding funds in excess of their immediate needs or properly assess their compliance with Treasury's cash management requirements, thereby increasing the funds' susceptibility to the risk of fraud, waste, and abuse. Further, the information in the PR 29 reports cannot be used by OCFO when completing its financial reporting responsibilities, such as for determining whether advances or prepayments should be recognized in HUD's financial statements or for other financial reporting purposes.

Submission of PR 29 Reports Was Not Always Timely, the Reports Were Not Accurately Tracked, and Some Reports Were Not Submitted

Grantees are required to submit the PR 29 report 30 days after the end of the reporting period.¹⁰ Our review of PR 29 reports found that they were not always submitted when required and were not accurately tracked.

Late and missing PR 29 report submissions: Specifically, we found 422 reports that were not submitted during FY 2022. Further, we identified 105 submissions¹¹ in the third quarter of FY 2022 (quarter ending June 30, 2022) that were late. We attribute this issue to the lack of CPD procedures on monitoring and following up on late and missing submissions. Without procedures, CPD field offices could not consistently monitor PR 29 report submissions or contact grantees that failed to submit their PR 29 reports by the submission deadline.

Flaws in how IDIS tracked PR 29 report accuracy and timeliness: IDIS could better support CPD staff in tracking when PR 29 reports are not timely or in ensuring that they are accurate. Specifically, IDIS did not maintain a log of previous submissions, thereby allowing resubmissions to overwrite previous reports. Further, IDIS misclassified unsubmitted and uncertified draft PR 29 reports as submitted. When designing the PR 29 report in IDIS, CPD allowed unrestricted editing privileges for grantees and the misclassification of PR 29 report submission status, which impacted the overall data integrity of the information collected in the report. The unrestricted editing privileges caused the PR 29 report to be subject to alterations at any time without explanation or a way of knowing whether the changes were warranted. This issue caused the report's amounts to frequently change, reducing its reliability as a tool upon which CPD field officers and management could make informed decisions.

Because of untimely submissions of the PR 29 report and the lack of system controls to protect data integrity, CPD could not ensure that the financial information collected from CDBG grantees was reliable;

¹⁰ The reporting frequency is based on Federal FY quarterly reporting periods.

¹¹ CPD requires grantees to submit the PR 29 report not later than 30 days after each quarter. For the purpose of our review, we considered a late submission to be an initial submission after August 16, 2022, which was the date on which we initially pulled the PR 29 reports for the third quarter of FY 2022.

assess grantees' compliance with cash management requirements; or use this information for other purposes, such as enhancing HUD's Federal financial reporting on its grant programs.

Conclusion

Without guidance and training on how to prepare the PR 29 report, CPD cannot ensure that the information collected from CDBG Entitlement grantees is reliable and timely. Further, the lack of written procedures for CPD to review the PR 29 reports impacts CPD's ability to adequately monitor grantees' compliance with cash management requirements to minimize the amount of funds held in excess of grantees' immediate needs and to reduce the funds' susceptibility to the risk of fraud, waste, and abuse. The implementation of these procedures and guidance will aide in improving HUD's monitoring of grantee financial performance and ensuring that HUD complies with its financial management responsibilities, contributing toward achieving HUD's strategic goal of enhancing its financial and grants management.

Recommendations

We recommend that the Principal Deputy Assistant Secretary of Community Planning and Development

- 1A. Develop comprehensive guidance and training for grantees on how to prepare the PR 29 report to ensure that the information collected is reliable, accurate, timely, and in compliance with the Uniform Administrative Guidance for Grants and Cooperative Agreements, specifically 2 CFR 200.302(a)(b) and 2 CFR 200.303.
- 1B. Determine whether the funds that were drawn in error need to be repaid to HUD and whether other remediation actions are appropriate.¹²
- 1C. Follow up with the four grantees without adequate supporting documentation and assess their compliance with the financial management requirements in 2 CFR 200.302(b)(3), which require the financial management system of each non-Federal entity to provide for records that adequately identify the source and application of funds for federally funded activities.
- 1D. Update the CPD Monitoring Handbook to incorporate the review of the PR 29 report when performing financial monitoring reviews.
- 1E. Develop written procedures on how to review PR 29 report submissions and monitor resubmissions, late submissions, and nonsubmissions.
- 1F. Evaluate and update IDIS to ensure that resubmissions of PR 29 reports are tracked and prior submissions are preserved and correct the system's misclassification of unsubmitted and uncertified draft PR 29 reports as submitted.

¹² During the audit, the grantee repaid the questioned funds to HUD. Therefore, we consider this recommendation resolved, and it will be closed once the final report is issued.

Opportunities Exist for CPD To Improve Its Grantee Financial Management To Advance HUD's Financial Reporting

Our review found opportunities for CPD to improve (1) its efforts to collect financial data from its CDBG grantees to advance HUD's financial reporting and (2) the requirements regarding the timing of grantee drawdowns to better align with when the expense was incurred. CPD used grantee drawdown data to develop its grant accrual estimate for the CDBG program, which produced an unreliable estimate due to the significant delays in grantee disbursements from when an expense was incurred. Further, CPD did not collect all data elements of the OMB Federal Financial Report (SF-425).¹³ The collection of excluded data elements could assist HUD in producing a more precise accrual estimate, resulting in improved financial reporting. Further, CPD did not collect other data that could assist HUD in improving its financial reporting related to its grant accrual liability. These circumstances occurred because CPD did not adequately consider HUD's financial reporting needs or periodically reevaluate those needs in conjunction with OCFO financial reporting needs and responsibilities. HUD could benefit and improve its financial reporting standing by (1) issuing guidance instructing grantees to request reimbursement for expenses within a specific timeframe, (2) monitoring the timeliness of grantee drawdowns, and (3) collecting additional grantee financial data to assist in developing a more reasonable grant accrual estimate. This measure could result in the reduction of financial reporting findings and more reliable financial statements.

Additional Grantee Data May Improve HUD's Financial Reporting

According to Federal accounting standards, HUD is required to estimate the amount of expenses incurred by grantees that have not yet been drawn down from HUD and report that amount as an accrued grant liability on its annual financial statements. For these estimates to be reliable, they should rely on relevant data from grantee financial reporting. HUD program offices have the responsibility for developing their accrued grant liability¹⁴ estimation methodology, and CPD designed a methodology based on the amount grantees draw down from HUD. In preparing accrual estimates for existing or mature grant programs such as CDBG, the accounting standards require agencies to accumulate sufficient relevant and reliable data on which to base accrual estimates, and agencies should evaluate whether different estimation methods could result in more accurate estimates.

HUD's annual Independent Auditor's Report cites weaknesses in internal controls over financial reporting, including deficiencies related to the process to estimate and validate CPD's accrued grant liability. However, CPD also did not collect or evaluate alternative data that could potentially produce better estimates for HUD's financial reporting. For example, CPD did not collect the expense data elements of the OMB Federal Financial Report (SF-425),¹⁵ and its PR 29 report was not properly designed to collect grantee disbursement information.

¹³ By expense data elements, we refer to lines 10e, Federal Share of Expenditures, and 10f, Federal Share of Unliquidated Obligations, of the SF-425.

¹⁴ An estimate of expenses incurred by grantees but not yet drawn down from the Federal agency, which is reported on the balance sheet of the Federal financial statements, also referred to as grant accrual estimate

¹⁵ By expense data elements, we refer to lines 10e, Federal Share of Expenditures, and 10f, Federal Share of Unliquidated Obligations, of the SF-425.

SF-425 Expense Data Elements:

Agencies have the discretion to decide which SF-425 data elements to collect according to 2 CFR part 200, and CPD decided to collect disbursement data elements but not expense data elements. However, expense data elements could produce more precise accrual estimates. Since accrued grant liabilities are estimates of grantee expenses, an estimation methodology based on grantee expense data can predict grantee expenses better than disbursement data. Through the quarterly collection of grantee expense data, CPD can pinpoint the specific period in which the expenses occurred, but with disbursement data, the period of the expenses is unknown. CPD did not require the SF-425 expense fields because it believed that equivalent information was already collected in other reports, specifically the Drawdown Report by Voucher Number (PR 07), the CDBG Expenditure Report (PR 50), and the CDBG Financial Summary Report (PR 26). However, these reports are not adequate for HUD's financial reporting purposes because all three reports autopopulate their fields based on grantee drawdown information already in IDIS and drawdowns are not the same as expenses. Of the three reports, only the PR 26 includes an adjustment field in which grantees can enter accrued grant expenses.¹⁶ However, this report is submitted only annually and based on the grantee's program year, which varies by grantee and, therefore, prevents HUD from obtaining a complete dataset of grantee expenses at a specific point in time, which is necessary for accurately estimating HUD's accrued grant liability.

PR 29 Report Grantee Disbursement Information:

The information that HUD collected on grantee disbursements¹⁷ in the PR 29 report was not reliable. Due to the way CPD designed the report, grantees could not report an amount greater than the amount they had drawn down from HUD. However, since grantees can spend funding before drawing it down (that is, operate on a reimbursement basis), grantee disbursements often exceed the amount drawn down from HUD. Therefore, for grantees operating on a reimbursement basis, the amount the grantee has disbursed but not yet drawn down from HUD was not collected as part of the PR 29 report.

The implementation of the PR 29 report could have been an opportunity for CPD to consult with OCFO and collect information from grantees to improve the accuracy of HUD's financial reporting and minimize the risk of deficiencies. However, based on discussions with CPD officials, we concluded that CPD did not adequately consider HUD's financial reporting needs when implementing CDBG grantee data collection requirements. As a result, CPD did not collect sufficient relevant and reliable grantee financial data to assist in meeting HUD's financial reporting needs and responsibilities related to the recognition of accrued grant liabilities. Not using expenditure data elements limited CPD's ability to reliably estimate its accrued grant liability and increased the risk of misstatements in HUD's financial statements and weaknesses in HUD's overall Federal financial reporting.

Reliance on Grantee Drawdown Data Caused Reliability Concerns for HUD's Financial Reporting

Although the Federal accounting standards provide flexibility for agencies to determine their accrual estimation methodologies, relying solely on grantee drawdown data may not always produce reliable

¹⁶ Line 14 of the PR 26 report

¹⁷ Line 4 of the PR 29 report - Cash (grant funds) disbursed during the reporting period

estimates because these data do not always reflect when the grantee incurred the expense. Grantees often draw down funds on a reimbursement basis many months after the expense has occurred. Further, grantees could draw down funds in advance of the expense's occurring.

During the course of our test work, we encountered several examples that illustrate how the timing of grantee expenses can vary significantly in relation to their related drawdowns. Specifically, we found that 23 of the 97 grantees from both of our samples drew down funds for the reimbursement of expenses that occurred between 4 and 29 months before the beginning of the PR 29 reporting period of April 2022. In these cases, the expenses occurred substantially before the drawdowns; therefore, HUD should have recognized the expenses as a grant accrual liability on its financial statements in the period in which they occurred. Instead, HUD recognized the expense based on when the funds were drawn down from HUD for reimbursement.

We noted a lack of regulations or guidance instructing grantees to request reimbursement for expenses within a specific timeframe and procedures to monitor the timeliness of grantee drawdowns. CDBG guidelines¹⁸ encouraged grantees to minimize the time lag between expenses and the drawdown of CDBG funds and to draw down funds on a regular schedule. However, since these were not requirements, grantees could decide when to draw down funds.

Since grantees are able to draw down funds at any time, regardless of when the expense occurred, the timing of grantee expenses for the purposes of HUD's Federal financial reporting could not be determined solely with drawdown data. This practice resulted in the drawdown data's being unsuitable for predicting the timing of grantee expenses, which prevented CPD from reliably estimating its accrued grant liability and ultimately impacted the reliability of HUD's financial statements. HUD could benefit and improve the reliability of its drawdown data and ultimately its grant accrual estimates and financial statements by issuing guidance instructing grantees to request reimbursement for expenses within a specific timeframe and monitoring the timeliness of grantee drawdowns.

Conclusion

Although the Federal accounting standards provide flexibility for agencies to determine their accrual estimation methodologies, relying solely on grantee drawdown data may not always produce reliable estimates because these data do not always reflect when the grantee incurred the expense. The lack of sufficient financial information from grantees and the reliance on unsuitable data can lead to misstatements and reliability concerns in HUD's financial reporting and can cause users of financial information, such as HUD management and Congress, to be misled when assessing HUD's operational performance. Therefore, there are opportunities for CPD to improve its grantee financial management and performance to achieve HUD's strategic goal to enhance financial and grants management.

Recommendations

We recommend that the Principal Deputy Assistant Secretary for Community Planning and Development

¹⁸ CDBG Entitlement Frequently Asked Questions (FAQ) - FAQ ID: 3616, Keeping Your CDBG Funds Moving - Guidelines for Managing Your Overall Community Development Block Grant Program in a Timely Manner

2A. Determine how often grantees' requests for reimbursement contain cost outside the quarter and in coordination with OCFO, evaluate CPD's grant accrual methodology and assumptions to ensure that it adequately considers the impact of these late cost reimbursements.

2B. Develop guidance that encourages grantees to draw down funds for reimbursement on a regular schedule, not less than quarterly.

2C. Work with OCFO to ensure that CPD collects and reports to OCFO all of the information needed to properly account for all CPD activities in HUD's financial statements in accordance with Federal financial reporting requirements and accounting standards.

2D. Update Line 4 - Cash (grant funds) disbursed during the reporting period in the PR 29 report to allow grantees to report all CDBG grant funds disbursed, including funds that have not yet been drawn down from HUD for reimbursement.

CPD Did Not Obtain Required Approvals Under the Paperwork Reduction Act Before Requiring the PR 29 Report

During the course of the audit, we identified another issue that was outside the scope of our review but we believe warrants management's attention. Agencies are required to obtain PRA approval before starting any new information collection. Since CPD replaced OMB SF-425 with the PR 29 report and introduced new fields that were not previously collected, CPD should have sought public input, as well as consideration and approval from OMB, on the PR 29 under PRA. However, CPD did not submit the PR 29 report for OMB approval according to the requirements of PRA.

CPD believed that no PRA approval was needed since it considered the PR 29 report to be a conversion of the paper-based SF-425 into an electronic format. However, according to OMB's Office of Information and Regulatory Affairs, conversions are only exempt from public comment and still require OMB approval under PRA. In addition, although we noted that some data elements collected in the PR 29 report are similar to those in the Federal Cash section of the SF-425, the PR 29 report introduces new data elements not previously collected by the SF-425. For example, the PR 29 report includes data elements related to local account repayment receipt funds and revolving loan funds, which are not included in the SF-425. Therefore, the PR 29 report is not simply a conversion of the SF-425 to an electronic format and, instead, is a new form that should have been submitted to OMB for review and approval as well as public comment.

Because CPD did not obtain PRA approval for the PR 29 report, CPD did not receive public input as required, nor did it assess the reporting burden imposed on the grantee as required by PRA.

Recommendations

We recommend that the Principal Deputy Assistant Secretary of Community Planning and Development

- 3A. Obtain the required approvals under PRA for the PR 29 report.

Scope and Methodology

We conducted the audit remotely from September 9, 2022, to June 1, 2023. The audit covered the period October 1, 2021, to September 30, 2022.

To accomplish our objectives, we

- Interviewed key HUD officials.
- Reviewed relevant criteria, including laws and regulations.
- Reviewed CPD notices, monitoring handbooks, IDIS manuals, and PR 29 report instructions.
- Reviewed CPD field office monitoring plans and monitoring reports for FY 2022.
- Reviewed PR 29 reports for FY 2022.
- Reviewed grantee questionnaire responses and supporting documentation to the PR 29 report, including trial balances, invoices, and voucher reports.
- Reviewed OMB's Office of Information and Regulatory Affairs Information Collection Review database from [reginfo.gov](https://www.reginfo.gov).

The audit methodology focused on reviewing CPD's monitoring process for the CDBG Entitlement grantees' financial reporting to determine compliance with certain provisions of the Uniform Administrative Guidance for Grants and Cooperative Agreements, as well as reviewing whether grantees were holding a significant amount of cash on hand. This process included evaluating the sufficiency of the grantees' financial data collected for accountability and whether the financial data collected could support and improve HUD's financial statement reporting.

We selected a sample of 97 PR 29 reports for the quarter ending June 30, 2022, from a sample universe of 1,021.¹⁹ The 97 samples were divided into two groups. For group 1, we selected 31 nonstatistical samples of reports with a cash on hand balance of more than \$2 million. The nonstatistical sample cannot be projected to the intended population. For group 2, we statistically selected 66 samples from the remaining universe of 990 reports. The statistical sample can be projected to the intended population.

We asked grantees to respond to a questionnaire that included questions for grantees to confirm the accuracy and supportability of each line of the PR 29 report reviewed. It also included questions related to their process for completing the PR 29 report, responsible officials, and explanations for any discrepancies in the report. We also asked grantees to provide supporting documentation for Line 2 - Cash (grant funds) received through IDIS drawdowns from the beginning of the reporting period through the end date and Line 4 - Cash (grant funds) disbursed during the reporting period. We obtained responses for 100 percent of the sampled grantee reports. Based on our review of the questionnaire responses and supporting documentation, we assessed the reliability and supportability of the cash on hand information reported by grantees in the PR 29 report.

We relied in part on computer-processed data in IDIS. Although we did not perform a detailed assessment of the reliability of the data, we performed testing for reliability and found the data to be

¹⁹ CDBG grantees submit one PR 29 report per quarter. Therefore, our sample universe consisted of 1,021 PR 29 reports from 1,021 distinct grantees.


adequately reliable for our informational analysis and sampling purposes. The tests for reliability included but were not limited to comparing computer-processed data to drawdown reports and reports on grantees with active CDBG grants.

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

Appendixes

Appendix A – Auditee Comments and OIG’s Evaluation

Ref to OIG Evaluation – Auditee Comments


OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

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

MEMORANDUM FOR: Brittany Wing, Audit Director,
Office of Inspector General (OIG), GAF

FROM: JESSIE KOME Digitally signed by JESSIE KOME
Date: 2023.12.21 12:44:21 -05'00'
Jessie Handforth Kome, Director
Office of Block Grant Assistance (OBGA), DGB

SUBJECT: Office of Community Planning and Development (CPD) Comments
on Draft Audit Report “Financial Information Collected from
CDBG Grantees Needs Improvement”

Thank you for the opportunity to comment on this draft audit report. The draft report makes 12 recommendations to CPD:

- 1A. Develop comprehensive guidance and training for grantees on how to prepare the PR 29 report to ensure that the information collected is reliable, accurate, timely, and in compliance with the Uniform Administrative Guidance for Grants and Cooperative Agreements, specifically 2 CFR 200.302(a)(b) and 2 CFR 200.303.
- 1B. Determine whether the grantee that drew down funds without supporting expenses made an improper payment and if necessary, apply appropriate discipline and remedies to comply with laws and regulations.
- 1C. Follow up with the grantees without adequate supporting documentation and assess their compliance with the financial management requirements contained in 2 CFR 200.302(b)(3) which require the financial management system of each non-Federal entity to provide for records that adequately identify the source and application of funds for federally-funded activities.
- 1D. Develop written procedures and exhibits in the CPD Monitoring Handbook for reviewing the PR 29 report when performing monitoring reviews.
 1. Develop written procedures on how to review PR 29 report submissions and remediate unapproved resubmissions, late submissions, and non-submissions.
- 1E. Evaluate and update IDIS to ensure that PR 29 report resubmissions require prior approval from CPD, maintain a log of prior submissions, and correct the system’s misclassification of unsubmitted and uncertified draft PR 29 reports as submitted.
- 1F. Reassess the risk analysis process to consider performing targeted financial management monitoring reviews of grantees that are rated high risk for the financial management risk factor, regardless of their total average risk score.
- 2A. Determine how often grantees request reimbursements outside the quarter when the cost was incurred and in coordination with OCFO evaluate CPD’s grant accrual methodology and assumptions to ensure that it adequately considers the impact of these late reimbursements.
- 2B. Develop guidance that encourages and instructs grantees to draw down funds for reimbursement on a regular schedule, not less than quarterly.

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 Comment 1 >

Ref to OIG Evaluation – Auditee Comments

2

- 2C. Work with OCFO to evaluate different data sets and estimation methodologies and ensure that CPD is collecting and reporting to OCFO all of the information needed to properly account for accrued grant liabilities in HUD’s financial statements and meeting other Federal financial reporting requirements in keeping with Federal accounting standards.
- 2D. Update Line 4 - Cash (grant funds) disbursed during the reporting period in the PR 29 report to allow grantees to report all grant funds disbursed, including funds that have not yet been drawn down from HUD for reimbursement.
- 3A. Obtain the required approvals under PRA for the PR 29 report.

Comment 2 >

CPD appreciates the OIG’s review of CDBG grantees financial reporting and identifying where opportunities exist to improve. Recommendation 1A emanates from your observations that Community Development Block Grant (CDBG) grantees lack consistency in preparing and submitting PR 29 reports in HUD’s Integrated Disbursement Information System (IDIS). We appreciate your identifying these as topics needing better guidance and training. CPD is developing a new Notice (i.e., guidance to grantees) for PR 29 reporting. Upon publication of the Notice, CPD is also planning to host three training webinars for grantees and CPD field office staff.

Comment 3 >

While we appreciate the OIG’s insights, CPD has the following key concerns with some of the proposed recommendations. These relate to:

- A confusion between CPD’s requirements at report submission (i.e., HUD is required to review reports for completeness and accuracy) and when CPD checks for compliance with laws and regulations and assesses remedies (i.e., CPD’s annual risk-based assessment and monitoring process). (Recommendations 1B, 1C, 1D)
- The lack of a legal basis for CPD to require that grantees obtain HUD approval for report submissions. Given the severe IT constraints that HUD is under overall, CPD will not be requesting IT funding for IDIS updates for the purpose of requiring grantee actions that are outside of the scope of HUD’s legal authority to collect. (Recommendation 1E)
- Requiring grantees to provide additional data elements to facilitate HUD’s financial reporting. The key concern here is that HUD cannot require grantees to report added data and increase reporting burden for HUD’s convenience, particularly when HUD is allowed to report an estimate and a methodology exists. (Recommendation 2A)
- The impossibility of CPD assessing the frequency of and dictating a schedule for reimbursement requests. Additionally, HUD has no legal basis to ask grantees for data on when they disbursed their own funds prior to getting CDBG reimbursement, and what a grantee disburses may not necessarily be reimbursed by CDBG funds. (Recommendation 2A, 2B, 2D)
- Redundant recommendations with other CPD audit report findings. Recommendation 2C is the same as 2020-FO-0003-001-O, 2023-FO-0004-001-F, and 2023-FO-0004-001-G. CPD already has a management decision in place for closing out these recommendations and is working towards implementing the agreed upon evidence for

 **Comment 4 >**

Comment 1 >

 **Comment 5 >**

 **Comment 6 >**

 **Comment 7 >**

Ref to OIG Evaluation – Auditee Comments

Comment 7 >

3

closure. Adding Recommendation 2C to the list serves no other purpose than to increase the reporting, tracking, and compliance burden on CPD staff. If this recommendation is included, CPD will be forced to file for an extension on the proposed due dates for the existing findings to account for the increased, unnecessary reporting burden. (Recommendation 2C)

HUD is not necessarily recommending changes to the report in these areas but noting that management actions to implement improvements in response to the findings may differ from the recommendation due to the noted constraints.

Please feel free to contact me with any questions regarding CPD's comments.

OIG Evaluation of Auditee Comments

- Comment 1 In the memorandum, CPD inadvertently changed the numbering of the recommendations. Recommendations 1, 1E, and 1F have been labeled 1E, 1F, and 1G, respectively. After considering CPD's comments, we made changes to several recommendations and deleted 1G in the final audit report.
- Comment 2 We are encouraged that CPD acknowledged the need for better guidance and training for grantees to prepare the PR 29 report, and that CPD plans to develop a new notice and webinars for PR 29 reporting. We also acknowledge CPD's comments about IT resource constraints. We look forward to working with CPD during the audit resolution process.
- Comment 3 OIG recognizes the differences between CPD's requirements for verifying accuracy and completeness of the PR 29 reports, and the requirements when conducting grantee monitoring, to assess compliance with laws and regulations. During the course of our audit, four grantees in our sample were unable to provide adequate documentation to support the financial data reported to CPD in the PR 29 reports and another grantee drew down funds without supporting expenses. These grantees could have weaknesses in their financial management controls. Therefore, it is appropriate for CPD to follow-up with these grantees and determine whether they are complying with financial management requirements (recommendations 1B and 1C). Since the PR 29 report is a relatively new report that collects grantee financial data, in recommendation 1D, we are also recommending that CPD update the CPD Monitoring Handbook 6509.2 to include the review of the PR 29 report as part of the financial monitoring reviews.
- Comment 4 We revised recommendation 1F to evaluate and update the IDIS system to ensure that resubmissions of PR 29 reports are tracked, and prior submissions are preserved.
- Comment 5 We did not intend to recommend that CPD regularly collect additional data elements from all grantees. CPD could use the PRA process to collect this information for a representative sample of grantees periodically to estimate how often grantees request reimbursement for costs incurred outside of the quarter. Then CPD could use this information to inform the assumptions used in the grant accrual estimation methodology. While this would still require the collection of some additional information from a sample of grantees, it should not create undue burden and this type of information is needed to produce a reliable grant accrual estimate. Federal accounting standards state that preparing reliable and timely accrual estimates for grant programs must be a joint effort among the budget, financial, and program offices at each agency and that these offices should work together to ensure that the procedures and internal control recommendations on accrual estimation are implemented and operating as designed.

Comment 6

Since CDBG grantees are not drawing down funds on a regular schedule, the suitability of CPD's accrual estimation methodology to predict the timing of grantee expenses based on draw down data should be reassessed. For that reason, we are recommending (2A) that CPD determine how often grantees' reimbursements contain costs outside the quarter and in coordination with OCFO, evaluate CPD's grant accrual methodology assumptions to ensure that it adequately considers the impact of these late cost reimbursements. Also, we revised recommendation 2B to say that CPD should develop guidance to encourage (instead of instructing) grantees to draw down funds for reimbursement on a regular schedule. Since CPD is estimating accrued grant liabilities based on grantee drawdowns, CPD should consider the impact that these late reimbursements have on the suitability of the draw down data for predicting the timing of grantee expenses. According to the PR 29 report instructions, grantees should report grant funds disbursed during the reporting period (quarter) in Line 4- Cash (grant funds) disbursed during the reporting period. When a grantee operates on a reimbursement basis, expenses will mostly occur before the drawdowns. However, IDIS does not allow grantees to report disbursements in the reporting quarter in which they occur and instead, allows its reporting only when the funds are drawn down for reimbursement. This contradicts the PR 29 instructions and causes the information collected in line 4 to be misleading. For this reason, we are recommending that CPD update line 4 to collect what it is intended to collect, which is grantee disbursements in the period in which they occurred and not when grantees were reimbursed.

Comment 7

To better complement the open recommendations that CPD referenced in its response, we revised recommendation 2C to not be specific to accrued grant liabilities, and to include ensuring that CPD is collecting and reporting to OCFO the information needed to properly account for all of CPD's activities. We do think this recommendation is necessary to address the root cause of this issue, which is that CPD did not adequately consider HUD's financial reporting needs when implementing CDBG grantee data collection requirements. We want to ensure that HUD's financial reporting needs are considered in all of CPD's activities so that CPD's programs are properly accounted for in HUD's financial statements.