

DRAFT

Financial Capacity and Risk Assessment Procedures

Objective

To evaluate an entity's capacity in the area of internal controls, eligibility, financial controls, procurement, and output/outcomes in administering Housing and Economic Recovery Act and/or American Recovery and Reinvestment Act funds.

Background

Housing and Economic Recovery Act of 2008 (HERA):

The Housing and Economic Recovery Act of 2008 became Public Law 110-289 on July 30, 2008. The Act serves to provide needed housing reform and for other purposes. Major provisions in the Act are detailed below:

Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes (Neighborhood Stabilization Program - NSP I)

The Act provided \$3.92 billion in emergency assistance for the rehabilitation of abandoned and foreclosed homes. It required grantees to spend grant funds within 18 months of receipt on eligible activities. Grantees were required to target 100 percent of the funds for the benefit of families at or below 120 percent of area median income and 25 percent of the funds were to be used to purchase and rehabilitate properties to be used to house families whose incomes did not exceed 50 percent of area median income.

All states will receive a portion of the appropriation, with the minimum allocated to any state set at \$19.6 million.

Housing Counseling Resources

The Act appropriated \$180 million for housing counseling resources. \$100 million of the appropriation is earmarked for the Neighborhood Reinvestment Corporation for foreclosure mitigation activities.

Hope for Homeowners¹

Under the program, distressed borrowers will be eligible to refinance into 30-year fixed rate FHA-insured mortgages. FHA will insure up to \$300 billion in new loans. The program will last from October 1, 2008 through September 30, 2011.

Housing Assistance Tax Act of 2008

The Act includes a first-time home buyer refundable tax credit for purchases on or after April 9, 2008 and before July 1, 2009 equal to 10 percent of the purchase price of a principal residence, up to \$7,500.

¹ Changes are currently being proposed for this program.

FHA Modernization Act of 2008

- Increases the FHA loan limit from 95 percent to 110 percent of area median home price up to 150 percent of the GSE conforming loan limit, or \$625,000, effective January 1, 2009.
- Requires a down payment of at least 3.5 percent for any FHA loan.
- Places a 12-month moratorium on HUD implementation of risk-based premiums.
- Prohibits seller-financed down payments².
- Allows down payment assistance from family members.

American Recovery and Reinvestment Act of 2009 (ARRA):

The American Recovery and Reinvestment Act of 2009 became Public Law 111-5 on February 17, 2009. The Act makes supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization, for fiscal year ending September 30, 2009, and for other purposes.

The Act institutes strict obligation and expenditure deadlines with Secretarial recapture and reallocation authority. The Secretary also has waiver authority and may direct that procurement requirements under state and local laws do not apply. For most of the programs, the Act includes priority provisions for awarding contracts. Generally, the Act allows for .5 percent of funding to be used for administrative expenses. It also allows for funds to be used by the Secretary for personnel, training, administrative expenses and technology.

Division A, Title VII of the Act provides the appropriations provisions for the following HUD programs:

Public and Indian Housing

- **Public Housing Capital Fund** - For the "Public Housing Capital Fund" to carry out capital and management activities for public housing agencies, as authorized under section 9 of the United States Housing Act of 1937

Native American Housing Block Grants

For "Native American Housing Block Grants", as authorized under title I of the Native American Housing Assistance and Self-Determination Act of 1996

Community Planning and Development

- **Community Development Fund**

For "Community Development Fund" to carry out the community Development block grant program under title I of the Housing and Community Development Act of 1974

² Efforts are currently being made to repeal this provision.

For the provision of emergency assistance for the redevelopment of abandoned and foreclosed homes, as authorized under division B, title III of the Housing and Economic Recovery Act of 2008 ("the Act") (Public Law 110-289)

- **Home Investment Partnerships Program** - For capital investments in low-income housing tax credit projects
- **Homelessness Prevention Fund** - For homelessness prevention and rapid re-housing activities

Housing Programs

- **Assisted Housing Stability and Energy and Green Retrofit Investments** - For assistance to owners of properties receiving project-based assistance pursuant to section 202 of the Housing Act of 1959, section 811 of the Cranston-Gonzalez National Affordable Housing Act, or section 8 of the United States Housing Act of 1937 as amended.

Office of Lead Hazard Control and Healthy Homes

For the "Lead Hazard Reduction Program", as authorized by section 1011 of the Residential Lead-Based Paint Hazard Reduction Act of 1992, and by sections 501 and 502 of the Housing and Urban Development Act of 1974

Our organization has identified the following programs as high risk. Management and organizational capacity of individual entities under review may increase or decrease those risks.

- Public Housing Capital Fund
- Community Development Fund
- Home Investment Partnerships Program
- Homelessness Prevention Fund

Appropriations/Authorizations – see Appendix A for additional information

HERA Direct Appropriations/Authorizations

Program	Funding	Funding method
Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes - NSP I	\$3,920,000,000	formula
Housing Counseling Resources	\$180,000,000	earmarked
Hope for Homeowners	insure up to \$300,000,000,000	
Reform of Regulation of Enterprises <i>(Section 1132 - Financial and Educational Counseling)</i>	appropriations authorized	
FHA Modernization Act of 2008 <i>(Section 2126 - Use of FHA savings for improvements in FHA technologies, procedures, processes, program performance, staffing, and salaries)</i>	\$25,000,000 FY09-13	
Housing Preservation <i>(Section 2835 - Other HUD Programs)</i>	\$2,500,000 FY09 \$900,000 FY10-13	
Miscellaneous <i>(Section 2902 - Increasing access and understanding of energy efficient mortgages)</i>	appropriations authorized	

ARRA Appropriations

Office/Program	Funding	Funding method
Public Housing Capital Fund	\$4,000,000,000	formula
Public Housing Capital Fund	\$1,000,000,000	competitive
Native American Housing Block Grants	\$255,000,000	formula
Native American Housing Block Grants	\$255,000,000	competitive
Community Development Fund	\$1,000,000,000	formula
Community Development Fund - NSP II	\$2,000,000,000	competitive
Home Investment Partnerships Program	\$2,250,000,000	formula
Homelessness Prevention Fund	\$1,500,000,000	formula
Assisted Housing Stability	\$2,000,000,000	
Energy and Green Retrofit Investments	\$250,000,000	
Office of Lead Hazard Control and Healthy Homes	\$100,000,000	
OIG	\$15,000,000	
Total Appropriations:	\$14,625,000,000	

Reference Material

Criteria	Title
Public Law 110-289	Housing and Economic Recovery Act of 2008
Public Law 111-5	American Recovery and Reinvestment Act of 2009
Federal Register Notice 73 FR 58330	Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008
Notice PIH 2009- 12 (HA)	Information and Procedures for Processing American Recovery and Reinvestment Act Capital Fund Formula Grants
Notice PIH 2008-41(HA)	Public Housing Agency (PHA) Five-Year and Annual Plan Process for all PHAs
[Docket No. FR-5171-N-03]	Federal Housing Administration (FHA) Single Family Mortgage Insurance: Announcement of Moratorium on Risk-Based Premiums
24 CFR 85	Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments
Additional Reference/Guidance	
Hope for Homeowners website: http://www.hud.gov/hopeforhomeowners/	
Neighborhood Stabilization Program website: http://www.hud.gov/nsp/	
American Recovery and Reinvestment Act (HUD) website: http://www.hud.gov/recovery/	
American Recovery and Reinvestment Act website: http://www.recovery.gov	
Office of Management and Budget Recovery website: http://www.whitehouse.gov/omb/recovery_default/	

Note: References to applicable laws, regulations and guidance are made throughout this guide. However, it does not specifically address all applicable criteria. There are PIH Notices, CPD Notices, Federal Registers, Mortgagee Letters, etc. that are not listed that may apply to the program/activity under review. The auditor is responsible for obtaining a thorough understanding of all applicable criteria and applying it as necessary.

Scope of Review

Determined by Region.

Staffing

Determined by Region. We would recommend two staff members.

Procedures

Nothing in these procedures should substitute auditor’s judgment or relevant facts about a specific entity. The auditor should continually reevaluate the procedures and augment and delete from this guide as needed. In accomplishing these objectives, the auditor should also be constantly alert for indicators of irregularities, abuse or illegal acts. Possible criminal violations noted during the review should be referred to the Office of Investigations for appropriate follow-up.

Preliminary Off-Site Work			
Days	Procedures	Reference	Notes
.5	Become familiar with the procedures. Make note of any procedures or other areas of the guide that you do not understand and discuss with ARIGA. ARIGA and AIC should modify and tailor procedures to reflect preliminary risk of the entity.		
.5	Obtain and become familiar with the relevant requirements listed in the reference material section.		
	Send out notification letters to HUD and entity(s) need to find out if we go through normal procedures – GAO, etc. See appendix E		
2	<p>For the entity (s) selected, obtain the following information from the HUD field office and review prior to going onsite:</p> <ul style="list-style-type: none"> • Grant application/grant agreement/contract/ action plan/etc. Review the information to determine the specific activities the entity is to undertake. • HUD’s risk analysis for the entity • The entity’s most recent audited financial statements (if applicable). Determine if the auditor identified control weaknesses relevant to the objectives. • Annual performance reports (if applicable) • Financial information obtained from LOCCs <p>HUD has various data sources that should be queried prior to and during the onsite review. The auditor should obtain and review relevant data from HUD systems, the HUD website and HUD files as warranted.</p>		
1	Interview HUD personnel regarding the entity’s program and any problems disclosed through previous monitoring or other relevant information. Does HUD have any concerns?		
1	Compare the proposed or existing activities to the requirements to determine if eligible.		

.5	Conduct a brainstorming session with audit team members that meet the requirements of SAS 99 and GAS 7.30 to assess the risks of fraud occurring that is significant within the context of the objectives. Modify procedures accordingly.		
.5	Hold an entrance conference with entity officials. Explain the nature and scope of the procedures and discuss such matters as the need for working space, access to documents and employees, review of draft findings, and any other pertinent aspects of the audit.		

On-site work			
Objective 1 – To review internal controls to determine whether sufficient capacity exists.			
Internal control, sometimes referred to as management control, in the broadest sense includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse. (Government Auditing Standards: July 2007 Revision)			
	Procedures	Reference	Notes
	Auditor should use information obtained in off-site work to augment or delete from these procedures to meet the objective and focus on greatest risk.		
2	Interview appropriate entity official regarding controls, activities, and capacity. See Appendix B for suggested questions.		
	Request an up-to-date organization chart. Review the chart to gain an understanding of the structure of the entity, reporting relationships, lines of communication, and supervision of staff. <ul style="list-style-type: none"> • Analyze staffing levels and work load assignments. Are they appropriate? Does the entity have plans to increase staff for the additional funds? • Identify staff responsibilities as well as reporting structure. Determine if separation of key duties is appropriate. 		
1	Obtain and review relevant policies and procedures. Assess their efficiency and effectiveness. Consider whether the entity's established policies and procedures: <ul style="list-style-type: none"> • Are current and readily available to staff? 		

	<ul style="list-style-type: none"> • Are established and in use for each of the entity's activities? • Are appropriate and/or adequate? • Are easy to understand? • Are in compliance with applicable laws and regulations? • Do they address a system of approvals, authorizations, verifications, reconciliations, reviews of operating performance, security and separation of duties? • Has management established appropriate controls over processes? • Are the policies and procedures consistently followed? 		
	Perform walk-throughs of the entity's processes. Observe staff duties to determine whether they are following written policies and procedures. Observe and determine if duties are adequately separated such as planning, eligibility, and quality control.		
1	Follow-up on any monitoring or IPA findings (collected during preliminary off-site work).		
1	<p>Assess whether the entity has sufficient controls to fulfill its obligations under the agreements / contracts. The auditor should consider the following items in assessing controls and capacity:</p> <ul style="list-style-type: none"> • Adequacy of policies and procedures • Extent of contracting • Demonstrated performance • New Activities (vs. past experience) • Realistic goals and plans • Results of other areas under reviews 		
1	Prepare a summary of the objective in accordance with the OIG Audit Operations Manual. The summary should contain complete finding outlines and be cross-referenced to the supporting working papers.		
Objective 2: To obtain, review, and analyze financial data			
	Procedures	Reference	Notes
	Auditor should use information obtained in off-site work to augment or delete from these procedures to meet the objective and focus on		

	greatest risk.		
1	Interview appropriate entity official regarding financial controls, activities, and capacity. See Appendix C for suggested questions.		
1	<p>Obtain and review relevant policies and procedures. Assess their efficiency and effectiveness. Consider whether the entity's established policies and procedures:</p> <ul style="list-style-type: none"> • Are current and readily available to staff? • Are established and in use for each of the entity's activities? • Are appropriate and/or adequate? • Are easy to understand? • Are in compliance with applicable laws and regulations? • Do they address a system of approvals, authorizations, verifications, reconciliations, reviews of operating performance, security and separation of duties? • Has management established appropriate controls over processes? • Are the policies and procedures consistently followed? • What is its plan to account and report on the additional funds? • Will the additional funds require additional resources (staff, hardware, etc.) 		
3	<p>Obtain budget report(s) as of the most recent month-end. Review for unusual transactions, significant overdrafts, or serious fluctuations from amounts initially budgeted.</p> <p>Test a sample of transactions for accuracy, reasonableness, and adequacy of supporting documentation. Other considerations include timeliness, reconciliations, completeness, accuracy, etc.</p>		
	Select sample from accounting records and perform testing to determine whether the entity is operating in accordance with requirements. Items of review include eligible activities, operating in accordance with budget, underlying contracts/procurement. Document whether funds are being used for authorized purposes, eligible activities		

	Compare entity activities to the activities shown as eligible. Note expenditures that do not appear eligible or consistent with the approved activities. Discuss expenditures with entity officials. Conclude as to whether the entity has made any undisclosed changes to their activities.		
	If necessary, discuss questioned activities with HUD officials.		
	Using CAATS, analyze the entity’s available financial data. This includes simply analyzing unobligated/unexpended funds to more in-depth ACL analysis of financial transactions. <i>A decision must be made as to whether the auditors have the expertise to efficiently perform this step. With proficient staff this could be done in one or two days. However, if they run into problems with obtaining, analyzing, or interpreting the data, the time to complete could accelerate.</i>		
1	Prepare a summary of the objective in accordance with the OIG Audit Operations Manual. The summary should contain complete finding outlines and be cross-referenced to the supporting working papers.		

Objective 3: To obtain, review, and analyze procurement

	Procedures	Reference	Notes
	Auditor should use information obtained in off-site work to augment or delete from these procedures to meet the objective and focus on greatest risk.		
1	Interview procurement officer regarding controls, activities, and capacity. See Appendix D for suggested questions.		
1	Obtain and review relevant policies and procedures. Assess their efficiency and effectiveness. Consider whether the entity’s established policies and procedures: <ul style="list-style-type: none"> • Are current and readily available to staff? • Are established and in use for each of the entity's activities? • Are appropriate and/or adequate? • Are easy to understand? • Are in compliance with applicable laws and regulations? • Do they address a system of approvals, 		

	<p>authorizations, verifications, reconciliations, reviews of operating performance, security and separation of duties?</p> <ul style="list-style-type: none"> • Has management established appropriate controls over processes? • Are the policies and procedures consistently followed? • Are these the same procedures that they will use to procure items with the additional funds? Follow-up if no. 		
1	Did the entity perform any risk assessments? If so, obtain a copy and review it for adequacy, reasonableness, usefulness, applicability, etc.		
	<p>Does the entity have a contract log? Is it complete? Any contracts lagging? Monitoring of contracts? Within budget?</p>		
2	<p>Select a sample of contracts or sub-recipient agreements and determine whether services were properly procured, monitored and completed:</p> <ul style="list-style-type: none"> • Procurement requested and approved in accordance with applicable laws & regulations • Purchases were for authorized products/services • Purchases were in compliance with applicable laws and regulations • Purchases/services were received • Purchases/services were adequately supported by proper documentation 		
	<p>Determine whether the selection(s) appear reasonable and justified. Ensure that documentation is available to support the selection process.</p>		
1	Prepare a summary of the objective in accordance with the OIG Audit Operations Manual. The summary should contain complete finding outlines and be cross-referenced to the supporting working papers		
Objective 4: To observe and analyze outputs/outcomes			
	Procedures	Reference	Notes
	Auditor should use information obtained in off-site work to augment or delete from these		

	procedures to meet the objective and focus on greatest risk.		
.5	Select entity activities to review. This could include case files, construction, rehabilitation, foreclosures, etc.		
.5	Obtain any monitoring or quality review documentation related to the activities. Follow-up?		
1	Review files, verify information, conduct site visits, etc. to determine eligibility and compliance with requirements.		
2	Determine if reviewed activities meet program intent. Complete?		
1	Perform site visits of activities. Bring a camera.		
1	Prepare a summary of the objective in accordance with the OIG Audit Operations Manual. The summary should contain complete finding outlines and be cross-referenced to the supporting working papers		

Assignment completion

	Procedures	Reference	Notes
1	<p>Assess whether the entity has sufficient controls to fulfill its obligations under the agreements / contracts. The auditor should consider the following items in assessing controls and capacity:</p> <p>Adequacy of monitoring and quality control Extent of new activities or expansion of existing activities Demonstrated performance New Activities Realistic goals and plan Results of other areas under reviews</p>		
	All elements of fraud should be reported to headquarters. Any instance(s) of possible criminal violations should be referred to the Office of Investigations.		
	In addition to the above actions, consideration should be given to providing recommendations to the appropriate Assistant Secretary for initiating action against individuals and entities under the Program Fraud Civil Remedies Act or under Civil Money Penalties against those who knowingly submit false information or when false statements		

	are noted.		
1	Hold an exit conference to discuss results and explain the reporting process. HUD should be invited.		
3	We are suggesting an audit related memorandum with auditee comments.		

Appendix A – Listing of appropriations and key provisions by program and office.

Appendix B – Management control questionnaire.

Appendix C – Financial control questionnaire.

Appendix D – Procurement questionnaire.

Appendix E – Sample audit notification letter.