

July 2006

COMMUNITY
DEVELOPMENT
BLOCK GRANTS

Program Offers
Recipients Flexibility
but Oversight Can Be
Improved



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-06-732](#), a report to congressional committees

Why GAO Did This Study

The Community Development Block Grant (CDBG) program provides funding for housing, economic development, and other community development activities. In fiscal year 2006, Congress appropriated about \$4.2 billion for the program. Administered by the Department of Housing and Urban Development (HUD), the CDBG program provides funding to metropolitan cities and urban counties, known as entitlement communities, and to states for distribution to nonentitlement communities. This report discusses (1) how recipients use CDBG funds, including the extent to which they comply with spending limits, (2) how HUD monitors recipients' use of CDBG funds, and (3) how HUD holds recipients that have not complied with CDBG program requirements accountable. To address these objectives, we visited 20 recipients, analyzed HUD data, and interviewed HUD staff.

What GAO Recommends

GAO recommends that HUD centrally maintain the data needed to determine compliance with statutory spending limits, develop a plan for replacing an aging workforce, solicit additional input from its field staff on user requirements for IDIS, and consider developing guidance on sanctioning CDBG recipients. In responding to a draft of this report, HUD stated that, overall, it agreed with GAO's findings, conclusions, and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-732.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Program Offers Recipients Flexibility but Oversight Can Be Improved

What GAO Found

HUD data show that CDBG recipients spend the largest percentage of their grants on public improvements (such as water lines and streets) and housing, but HUD does not centrally maintain the data needed to determine compliance with statutory spending limits. Due to the lack of centralized data, GAO was not able to determine the extent to which all recipients have complied with statutory spending limits on public services (such as health and senior services) and administration and planning. However, data provided by HUD for the 100 most populous entitlement communities, which received about one-third of the CDBG funds allocated in fiscal year 2006, showed that not all of these entitlement communities complied with the limits. Of the 100 communities, 3 exceeded their public service spending limit, and 1 exceeded the administration and planning spending limit. Given that entitlement communities collectively spend at or close to the limits, it is important for HUD to be able to report on the extent of their individual compliance with these limits.

HUD uses a risk-based approach to monitor CDBG recipients; however, it has not developed a plan to replace monitoring staff or fully involved its field staff in plans to redesign an information system they use to monitor recipients. HUD's monitoring strategy calls for its field offices to consider various risk factors when determining which recipients to review because it has limited monitoring resources, and its workload has increased as its staffing levels have decreased. For example, 13 of the 42 field offices that oversee CDBG recipients do not have a financial specialist to evaluate the financial operations of each recipient, and 39 percent of CDBG monitoring staff is eligible to retire within the next 3 years. Despite these statistics, HUD has not developed a plan to hire staff with needed skills or manage upcoming retirements. Finally, although the Integrated Disbursement and Information System (IDIS) is a tool that HUD field staff use to monitor, HUD headquarters has solicited little input from them on efforts to redesign IDIS.

Although it has issued a clear policy stating what actions it will take when entitlement communities fail to meet the statutory requirement that funds be spent in a timely manner, HUD has not developed similar guidance establishing a consistent framework for holding CDBG recipients accountable for deficiencies identified during monitoring. For deficiencies other than being slow to expend funds, HUD has the flexibility to institute sanctions ranging from issuing a warning letter to advising the recipient to return funds. Although its field offices have great flexibility when taking sanctions, HUD has not issued guidance establishing a framework to ensure that they are treating recipients that commit similar infractions equitably. We found instances in fiscal year 2005 where treatment seemed inconsistent. For example, several field offices found that recipients had not documented that a funded activity met any one of the program's three national objectives, but took different actions. In the continued absence of guidance, HUD lacks a means to better ensure consistency in the sanctioning process.

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Abbreviations

CDBG	Community Development Block Grant Program
CPD	Office of Community Planning and Development
ESG	Emergency Shelter Grants Program
GAO	Government Accountability Office
GMP	Grants Management Process System
HOME	HOME Investment Partnerships Program
HOPWA	Housing Opportunities for Persons with AIDS Program
HUD	Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool

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United States Government Accountability Office
Washington, D.C. 20548

July 28, 2006

The Honorable Robert Ney
Chairman, Subcommittee on Housing
and Community Opportunity
Committee on Financial Services
House of Representatives

The Honorable Michael R. Turner
Chairman, Subcommittee on Federalism
and the Census
Committee on Government Reform
House of Representatives

The Honorable Tom A. Coburn
Chairman, Subcommittee on Federal Financial
Management, Government Information, and
International Security
Committee on Homeland Security and
Governmental Affairs
United States Senate

The Community Development Block Grant (CDBG) program is the federal government's principal community development program. It provides funding for housing, economic development, neighborhood revitalization, and other community development activities. In fiscal year 2006, Congress appropriated approximately \$4.2 billion for the program. Administered by the Department of Housing and Urban Development (HUD), the CDBG program provides funding to metropolitan cities and urban counties, known as entitlement communities, and to states for distribution to nonentitlement communities. The program provides annual grants on a formula basis that takes into account population, poverty, housing overcrowding, the age of the housing, and any change in an area's growth in comparison with that of other areas. The activities undertaken with program funds must (1) principally benefit low- and moderate-income persons, (2) aid in the prevention or elimination of slums or blight, or (3) meet urgent community development needs.

The CDBG program has undergone few fundamental changes since Congress created it in 1974. However, the administration's fiscal year 2006 budget proposed consolidating the program with other community and economic development programs in the Department of Commerce and

reducing overall funding. Congress did not act on this proposal, but the administration proposed additional program reforms and a 27 percent funding reduction in its fiscal year 2007 budget. Because of these proposed changes, you requested that we review the use of CDBG funds and how HUD oversees the program. Specifically, this report discusses (1) how recipients have used CDBG funds, including the extent to which they have funded activities that meet national program objectives, complied with spending limits, and reported accomplishments achieved with funds; (2) how HUD has monitored recipients' use of CDBG funds; and (3) how HUD has held recipients that have not complied with CDBG program requirements accountable for their actions.

To address these objectives, we visited 20 recipients—4 states, 2 urban counties, and 14 cities.¹ We selected these recipients based on factors such as geographic dispersion, funding level, and need.² During these visits, we interviewed staff, toured funded projects, and reviewed 144 recipient files. We also visited four nonentitlement communities. We analyzed Integrated Disbursement and Information System (IDIS) data on expenditures and Grants Management Process (GMP) System data on the extent of HUD monitoring. We determined that the data were sufficiently reliable for the purposes of this report. Finally, we reviewed HUD's program regulations and guidance and interviewed headquarters and field staff. We performed our work from July 2005 to July 2006 in accordance with generally accepted government auditing standards. Appendix I provides additional details on our scope and methodology.

Results in Brief

HUD data show that CDBG recipients spend the largest percentage of their grants on public improvements (such as water lines and street improvements), housing, and administration and planning, but HUD does not centrally maintain the data needed to determine compliance with statutory spending limits on public services (such as health and senior services) and on administration and planning. In terms of the activities most often funded, some differences exist in how entitlement communities and states have used their funds. In fiscal year 2005, HUD data showed that

¹The 20 recipients we visited included 17 recipients in the Atlanta, Baltimore, Boston, Chicago, Denver, and Los Angeles metropolitan areas and 3 recipients outside of large metropolitan areas (Warner Robins, Georgia; Dubuque, Iowa; and Beloit, Wisconsin).

²"Need" comprises factors such as poverty, age of housing, and decline.

entitlement communities—cities and urban counties—spent 27 percent of their funds on housing, 24 percent on public improvements, and 17 percent on administration and planning. Other activities they funded to a lesser extent included public services, acquisition of property, and economic development. During that same time period, HUD data showed that the nonentitlement communities funded by states spent 54 percent of their funds on public improvements, 17 percent on housing, and 15 percent on economic development. Because HUD’s information systems do not maintain a record of data adjustments needed to calculate compliance, we were not able to determine the extent to which all recipients have complied with the statutory spending limits on public services and administration and planning. However, data collected by HUD from its field offices for the 100 most populous entitlement communities showed that not all complied with the limits.³ These 100 entitlement communities received about one-third of the CDBG funds allocated in fiscal year 2006. Of the 100 entitlement communities, 3 exceeded their public service spending limit, and 1 exceeded the administration and planning spending limit. Given that HUD data show that entitlement communities collectively spend at or close to the limits, it is important for HUD to be able to report on the extent of their individual compliance with these limits.

HUD uses a risk-based approach to monitor CDBG recipients; however, it has not developed a plan to ensure that it has enough staff with the skills needed to conduct monitoring or fully involved its field staff in plans to redesign an information system they use to monitor recipients. Consistent with our internal control standards, HUD has developed a formal risk analysis process for its field offices to follow when determining which recipients to review.⁴ The factors considered include the size of the recipient’s grant, the complexity of the activities that a recipient undertakes, and how long it has been since the department last reviewed a recipient. HUD’s field offices generally followed this process when determining which recipients to review in fiscal year 2005. Our analysis of the extent of HUD monitoring showed that HUD reviewed most, but not all, CDBG recipients at least once in the 5-year period from fiscal year 2001 through fiscal year 2005. Specifically, HUD reviewed all but 255 recipients

³We do not know to what extent the 100 most populous entitlement communities are reflective of the 1,128 entitlement communities; therefore, results of this analysis cannot be generalized to all entitlement communities.

⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

in fiscal years 2003 through 2005. These 255 recipients received about \$525 million in fiscal year 2005 funding. During the 5-year period from fiscal year 2001 through 2005, HUD did not monitor 84 recipients that received a total of about \$132 million in fiscal year 2005. HUD uses a risk-based approach because it has limited staff to devote to CDBG monitoring and its CDBG workload has increased as its staffing levels have decreased. For example, 13 of the 42 field offices overseeing CDBG recipients do not have a financial specialist to evaluate the financial operations of each recipient, and 39 percent of CDBG monitoring staff is eligible to retire within the next 3 years. Despite these statistics, HUD has not developed a plan to hire staff with needed skills or help manage upcoming retirements. Further, IDIS—the system that HUD uses to conduct on-site and off-site monitoring—does not contain all of the information that HUD needs to monitor recipients’ performance. For example, HUD field staff told us that the data in IDIS are not always current because some recipients do not update it quarterly, as HUD recommends. HUD is currently redesigning IDIS, but it has solicited limited input from its field staff on its development plans.

Although it has issued a clear policy stating what actions it will take when entitlement communities fail to meet the statutory requirement that funds be spent in a timely manner, HUD has not developed similar guidance establishing a consistent framework for holding CDBG recipients accountable for deficiencies identified during monitoring. HUD has set a timeliness standard for entitlement communities and established a grant reduction policy for recipients that exceed the standard. For deficiencies other than being slow to expend funds (such as funding an ineligible activity or failing to document that an activity meets one of the program’s national objectives), HUD has the flexibility to assess sanctions ranging from issuing a warning letter to advising the recipient to return CDBG funds. Although its field offices have great flexibility when making sanctions, HUD has not issued guidance establishing a consistent framework to ensure that these offices are treating recipients that commit similar infractions equitably. In conducting our work, we found instances in fiscal year 2005 where findings that appeared to be similar were associated with different enforcement actions. For example, several field offices found that recipients had not documented that a funded activity met a national objective, but took different actions. One office advised the recipient to pay back funds. If the recipient could not provide further documentation, the second office planned to advise the recipient to provide written assurance that it would not fund that type of activity again, while the third office stated that it might disallow the expenditures.

Treatment can continue to appear inconsistent in the absence of guidance to better ensure consistency and transparency in the sanctioning process.

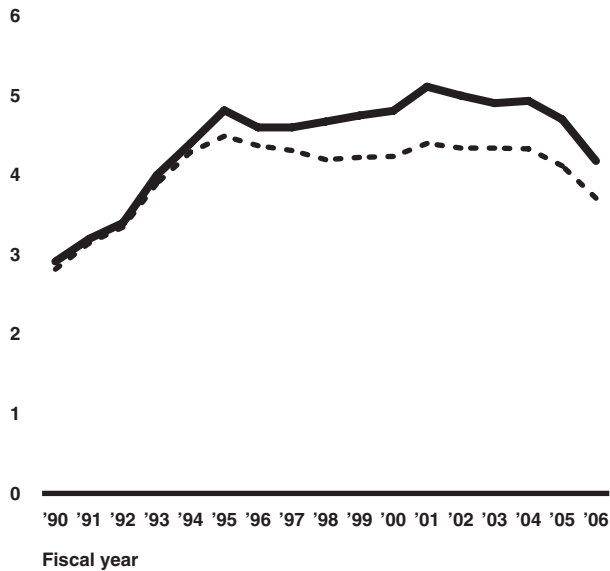
This report contains four recommendations designed to improve HUD's processes for monitoring communities' use of CDBG funds. We recommend that HUD centrally maintain the data needed to determine compliance with statutory spending limits, develop a plan for replacing an aging workforce, solicit additional input from its field staff on the user requirements for IDIS, and consider developing guidance on sanctioning CDBG recipients. We provided a draft of this report to HUD for its review and comment. In response, HUD provided a letter with comments that are technical in nature. In addition, we received oral comments from the Office of Community Planning and Development's Comptroller stating that, overall, HUD agrees with our findings, conclusions, and recommendations.

Background

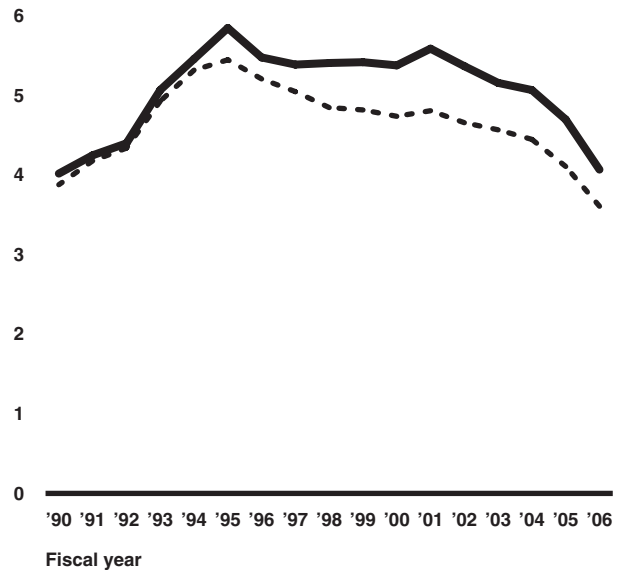
The Housing and Community Development Act of 1974 combined seven categorical programs to form the CDBG program. The objective of the program is to develop viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. Program funds can be used on housing, economic development, neighborhood revitalization, and other community development activities. As shown in figure 1, CDBG appropriations have fluctuated over time.

Figure 1: CDBG Appropriations, 1990 – 2006

Real dollars in billions



Constant dollars in billions (2005)



— Total appropriations
 - - - Formula allocation

Source: HUD appropriations data.

Note: The formula allocation represents the portion of CDBG funds that is available for distribution to entitlement communities and states after Congress sets aside funds for special purposes.

After funds are set aside for special purposes such as the Indian CDBG program and allocated to insular areas, the annual appropriation for CDBG formula funding is split so that 70 percent is allocated among eligible metropolitan cities and counties (referred to as entitlement communities) and 30 percent among the states to serve nonentitlement communities.⁵ Entitlement communities are (1) principal cities of metropolitan areas, (2) other metropolitan cities with populations of at least 50,000; and (3) qualified urban counties with populations of at least 200,000 (excluding the

⁵Total set-asides for fiscal year 2006 are \$467 million. Under the Indian CDBG program, HUD provides competitive grants to federally recognized Indian tribes and to certain tribal organizations. The four insular areas are American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands.

population of entitled cities).⁶ Currently, 1,128 entitlement communities receive CDBG funds, which is up from 866 entitlement communities in fiscal year 1990; 50 states also receive CDBG funds.⁷ HUD distributes funds to entitlement communities and states based on the higher yield from one of two weighted formulas that consider factors such as population, poverty, housing overcrowding, the age of the housing, and any change in an area's growth in comparison with that of other areas. HUD ensures that the total amount awarded is within the available appropriation by reducing the individual grants on a pro rata basis.

Entitlement communities may carry out activities directly or may award funds to subrecipients to carry out agreed-upon activities. Subrecipients can be governmental agencies such as public housing authorities or park districts; private nonprofits such as private social service agencies, community development corporations, or operators of homeless shelters; and certain private, for-profit entities that facilitate economic development. Whenever an entitlement community uses a subrecipient, it must enter into a signed, written agreement with that subrecipient that includes a statement of work—which describes the work to be performed, the schedule for completing the work, and the budget—and the recipient's recordkeeping and reporting requirements.

Every activity funded by entitlement communities and states must meet one of three national program objectives. Activities undertaken must (1) principally benefit low- and moderate-income persons, (2) aid in the prevention or elimination of slums or blight, or (3) meet urgent community development needs. Recipients must use at least 70 percent of their funds for activities that principally benefit low- and moderate-income people over a period of 1, 2, or 3 years, as specified by the recipient. Generally, an activity is considered to principally benefit low- and moderate-income people if 51 percent or more of those benefiting meet the definition. However, the CDBG statute includes an exception that enables certain

⁶The Office of Management and Budget (OMB) defines metropolitan areas. A principal city is the largest city of a metropolitan area or a city that meets specified statistical criteria.

⁷Although 118 of the 1,128 entitlement communities no longer meet the definition, they remain entitlements due to a statutory provision that allows communities that qualified for at least 2 years to remain qualified indefinitely. These 118 entitlement communities were allocated about \$100 million in fiscal year 2005. The 50 state recipients include Puerto Rico but not Hawaii because it has permanently elected not to receive state CDBG program funding. HUD awards funds for the nonentitlement areas in Hawaii directly to the three eligible counties.

entitlement communities to utilize CDBG funds for “area benefit activities” in census tracts having a low- and moderate-income population of less than 51 percent.⁸ Area benefit activities are activities that benefit all of the residents in a particular geographic area, such as a park, community center, or streets. Entitlement communities that may utilize this exception are those that have a limited number of census tracts with a majority low- and moderate-income population, and the exception extends to the 25 percent of census tracts within the entitlement community’s boundaries having the highest percentages of low- and moderate-income persons.

Recipients can only use their CDBG funds on 26 eligible activities. For reporting purposes, HUD classifies these eligible activities into eight broad categories, as defined in table 1. Some of the activities that can be funded, such as loans for housing rehabilitation, generate program income for recipients that must be used to fund additional activities. There are statutory limitations on the amounts that recipients may spend in two specific areas. Pursuant to provisions in annual appropriations laws, recipients may only use up to 20 percent of their annual grant plus program income on planning and administrative activities. Recipients may also only use up to 15 percent of their annual grant plus program income on public service activities.⁹ Entitlement communities comply with these requirements by limiting the amount of funds they obligate for these activities during the program year, while states limit the amount they spend on these activities over the life of the grant.

⁸42 U.S.C. § 5305(c)(2)(A)(ii).

⁹Public service activities funded through community based development organizations—organizations authorized under 24 C.F.R. 570.204 to carry out special activities such as economic development or new housing construction—are not subject to the public service spending limit.

Table 1: Categories of Eligible CDBG Activities

Category	Description
Acquisition	Includes the acquisition of real property, clearance and demolition, and relocation
Administration and planning	Includes planning, general program administration, and indirect costs
Economic development	Includes financial assistance to for-profit businesses and the rehabilitation of publicly or privately owned commercial or industrial property
Housing	Includes the rehabilitation of residential properties, direct homeownership assistance, and code enforcement
Public improvements	Includes public facilities such as homeless shelters and neighborhood facilities and improvements to water and sewer lines and streets
Public services	Includes health services, senior services, child care services, and employment training
Repayments of Section 108 loans	Repayments of loans obtained using current and future CDBG allocations as collateral
Other	Includes nonprofit organization capacity building and assistance to institutions of higher learning

Source: HUD data.

Recipients must submit a strategic plan that addresses the housing, homeless, and community development needs in their jurisdictions at least once every 5 years. The plan covers CDBG and three other formula grant programs administered by HUD—the HOME Investment Partnerships (HOME) Program, the Emergency Shelter Grants (ESG) Program, and the Housing Opportunities for Persons with AIDS (HOPWA) Program.¹⁰ Annually, recipients must submit an action plan that identifies the activities they will undertake to meet the objectives in their strategic plans.¹¹ At the end of each year, recipients must submit to HUD an annual performance report detailing progress they have made in meeting the goals and

¹⁰The HOME program provides federal assistance to participating jurisdictions for housing rehabilitation, rental assistance, home-buyer assistance, and new housing construction. The ESG program provides homeless persons with basic shelter and essential supportive services by assisting with the operational costs of shelter facilities. The HOPWA program provides housing assistance and related supportive services to persons living with human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS).

¹¹Recipients have different program year start and end dates that often coincide with their jurisdictions' fiscal year.

objectives outlined in their strategic and action plans. HUD staff use detailed checklists to review recipients' strategic and annual actions plans as well as their annual performance reports.

HUD's Office of Community Planning and Development (CPD) administers the CDBG program through program offices at HUD headquarters and 42 field offices located throughout the United States. The headquarters offices set program policy, while staff in the 42 field offices monitor recipients. Each field office is headed by a CPD director. CPD has a total authorized staff of approximately 800—about 200 at headquarters and 600 in the field. CPD field offices are responsible for a broad range of grant management activities that include annual review and approval of entitlement grantee action plans, preparation and execution of grant agreements, review of entitlement grantee annual performance reports, managing homeless program competition to include reviewing over 4,500 applications; preparing conditional award letters; reviewing and approving technical submission for conditionally approved grants; setting up budgets for each grant in Line of Credit Control System; executing grant agreements and grant closeout activities, providing technical assistance to entitlement and competitive grantees, and recapturing unobligated/unexpended grant funds, as well as monitoring activities.

In September 2005, CPD issued a new monitoring handbook. The handbook states that monitoring is an integral management control technique and that the goal of monitoring is to determine compliance, prevent/identify deficiencies, and design corrective actions to improve or reinforce program participant performance. It contains two chapters on monitoring the CDBG program, and these chapters include 29 exhibits for field office staff to use when monitoring CDBG recipients.

HUD staff use two major information systems to monitor the use of CDBG funds—IDIS and GMP. Developed in fiscal year 1996, IDIS is a management information system that consolidates planning and reporting processes across HUD's four formula grant programs. The recipients use this system to enter information on their plans, establish projects and activities to draw down funds, and report accomplishments. The GMP system, created in fiscal year 1997, records information such as HUD's monitoring of recipients, provision of technical assistance, and review of recipients' plans and performance reports. The system is designed for use by HUD staff to ensure that funds are being expended properly and to provide information on recipient progress.

In April 1999, we issued a report on HUD's oversight of CDBG and CPD's three other formula grant programs.¹² At that time, we found that HUD's monitoring did not ensure that the programs' objectives were being met or that recipients were managing their funds appropriately. We also noted that IDIS did not provide the information necessary to accurately assess recipients' performance and thus did not compensate for HUD's breakdowns in monitoring. Specifically, we reported that IDIS (1) provided ample opportunity for major problems with data entry and did not allow such problems to be corrected easily, (2) did not provide timely and accurate information, and (3) had difficulty producing reports. Because of the actions HUD took in response to our recommendations in this report, we removed CPD's programs from our high-risk list in 2001.¹³

We have issued standards for internal control in government that agencies should follow.¹⁴ Internal control helps government program managers achieve desired results through effective stewardship of public resources. Internal control standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. Two of the standards are (1) risk assessment, where risks are identified and analyzed for their possible effect and (2) monitoring, which assesses the quality of performance over time and ensures that findings are promptly resolved. Another standard is control activities that help ensure that management's directives are carried out. Examples of such activities include managing an organization's workforce and establishing and reviewing performance measures and indicators.

¹²GAO, *Community Development: Weak Management Controls Compromise Integrity of Four HUD Grant Programs*, [GAO/RCED-99-98](#) (Washington, D.C.: Apr. 27, 1999).

¹³GAO, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001).

¹⁴[GAO/AIMD-00-21.3.1](#).

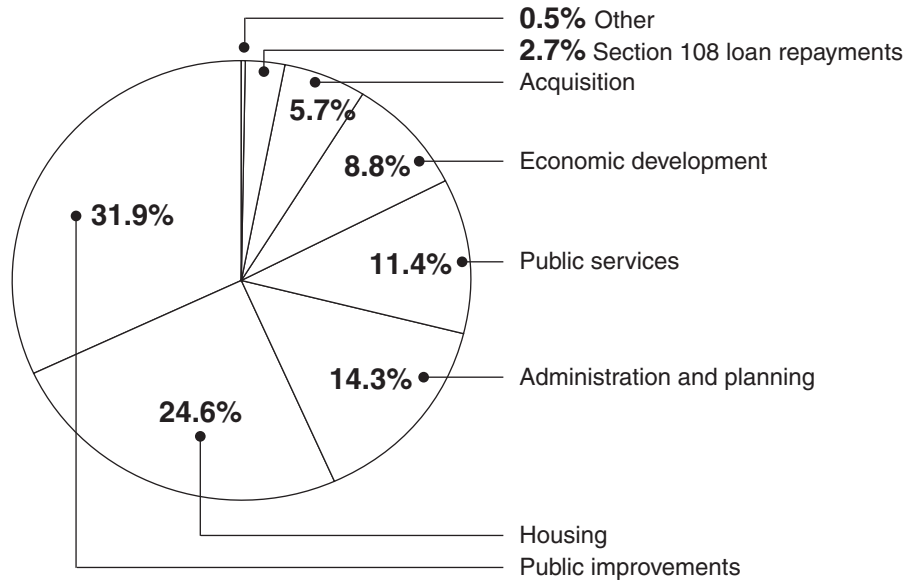
Recipients Fund a Variety of Activities, but HUD Lacks Centralized Data Showing Compliance with Statutory Spending Limits

While the data that HUD collects on CDBG expenditures show that CDBG recipients fund a variety of activities, HUD does not centrally maintain the data needed to determine if recipients are complying with statutory spending limits. According to HUD's data, CDBG recipients spend the largest percentage of their funding on public improvements and housing activities. Further, recipients report that the vast majority of activities they fund meet the national objective of principally benefiting low- and moderate-income persons; however, 359 recipients are currently eligible for an exception that allows them to expand the definition of low- and moderate-income areas. There are statutory spending limits on public services and administration and planning, but HUD's information systems do not maintain all the data needed to determine the extent of compliance with these limits. Finally, HUD has implemented a new performance measurement system to improve its ability to obtain consistent data on accomplishments attained with CDBG funds.

CDBG Recipients Use the Majority of Their Grants to Fund Public Improvements and Housing Activities

CDBG recipients spend the largest percentage of their funding on public improvements and housing activities. In fiscal year 2005, recipients spent about \$4.8 billion in CDBG funds to address a wide range of local needs. Approximately \$508 million (or 10 percent) of these total expenditures were from program income generated by previous CDBG activities. As shown in figure 2, CDBG recipients spent 32 percent of their total funds on public improvements and 25 percent on housing in fiscal year 2005. Within the category of public improvements, recipients spent the largest percentage of their funds on water and sewer improvements. Under the housing category, the single activity that received the most funding was single-unit residential rehabilitation.

Figure 2: FY 2005 CDBG Expenditures, All Recipients



Source: GAO analysis of IDIS data.

Note: Other includes nonprofit organization capacity building and assistance to institutions of higher learning.

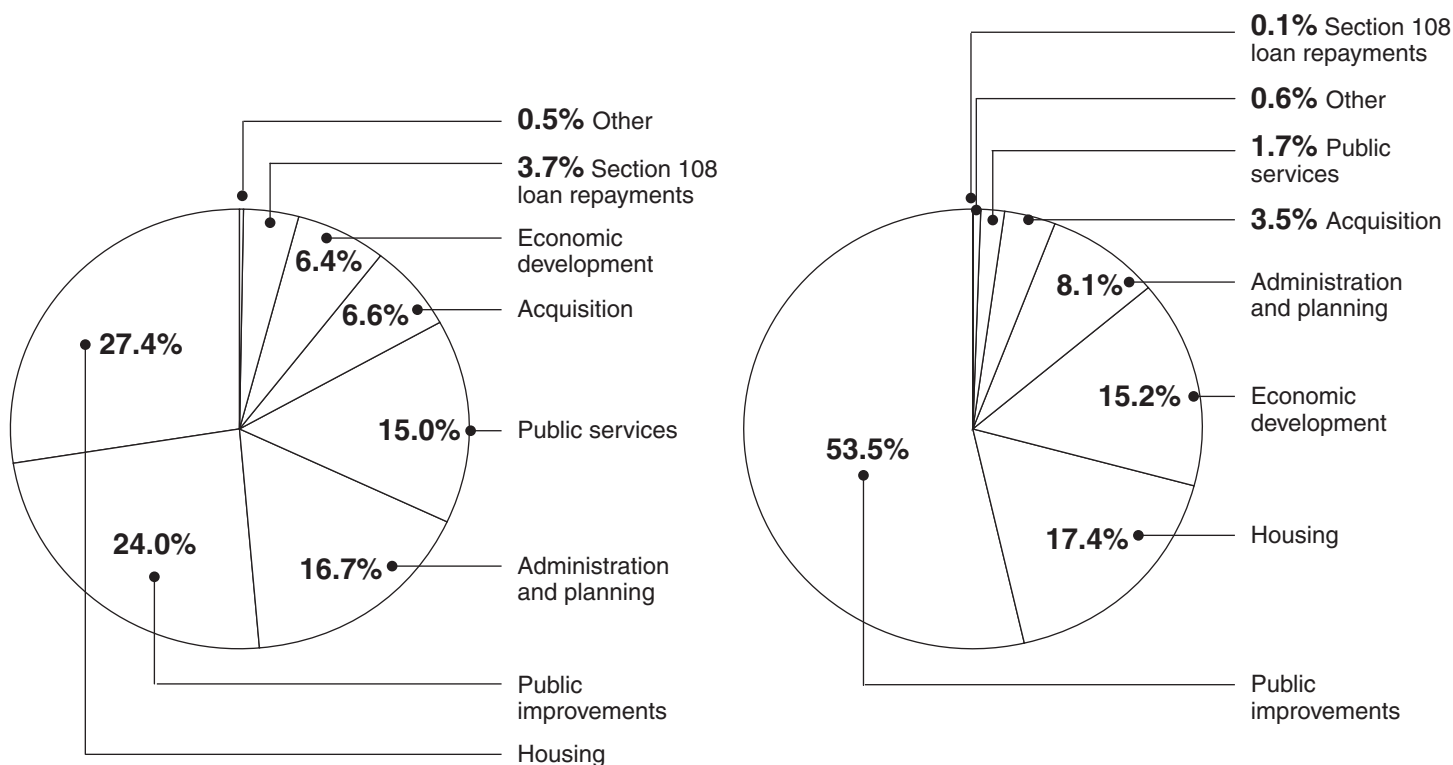
Although both entitlement communities and states devote large amounts of funding to public improvements, figure 3 shows some differences in how they use their CDBG funds. Entitlement communities spend the largest percentage of their CDBG funds on housing activities. In fiscal year 2005, entitlement communities spent 27 percent of their CDBG allocations on housing activities, followed by 24 percent on public improvements, and 17 percent on administration and planning activities. In contrast, states distribute over half of their CDBG funds to public improvements. In fiscal year 2005, states distributed 54 percent of their funds to public improvements, 17 percent to housing activities, and 15 percent to economic development. States and entitlement communities use a similar process to identify CDBG needs, but states also have to determine how they will distribute their funds to nonentitlement communities. How states choose to distribute their funds varies from state to state. For example, Georgia distributes most of its CDBG funding through a competitive process that funds the best projects regardless of activity type. Colorado also uses a competitive process, but it distributes a third of its CDBG funding to housing, a third to business financing, and a third to public facilities and community development. Pennsylvania distributes most of its CDBG

funding using a formula method. For examples of how selected states distribute their CDBG funds, see appendix II.

Figure 3: FY 2005 CDBG Expenditures, Entitlement Communities and States

CDBG expenditures by entitlement communities

CDBG expenditures by states



Source: GAO analysis of IDIS data.

As a result of the flexibility inherent in the CDBG program, the types of activities that entitlement communities and states fund within each broad category vary considerably. During our site visits, many of the recipients we interviewed stated that the flexibility afforded by CDBG was one of the program's strengths. Figure 4 illustrates the variety of activities funded by the recipients we visited. More detailed descriptions of various activities funded by the recipients we visited can be found in appendix III.

Figure 4: Activities Funded by Recipients That We Visited

**El Centro Del Pueblo
(Los Angeles, California)**

Public service activities included youth services, senior services, employment training, and literacy programs. For example, the city of Los Angeles, California used CDBG funds to support an after-school activities center that serves 250 youth ages 7 to 20.



**Hope House
(Atlanta, Georgia)**

Public improvement activities included the construction of homeless shelters, improvements to water and sewer lines, and park renovations. For example, the city of Atlanta, Georgia used CDBG funds to construct a new shelter and transitional housing facility for 70 homeless men.



**Beloit housing rehabilitation
(Beloit, Wisconsin)**

Housing activities included housing rehabilitation, home buyer assistance, energy efficiency improvements, and various home safety improvements. For example, the city of Beloit, Wisconsin used CDBG funds for paint, housing rehabilitation, and revolving loan programs.

Before



After



**Washington Street
corridor redevelopment
(Denver, Colorado)**

Economic development activities included improvements to commercial properties, infrastructure development to attract or retain businesses, revolving loan funds, and business façade improvements. For example, the city of Denver, Colorado used CDBG funds to finance the demolition and rehabilitation of blighted commercial properties.

Before



After

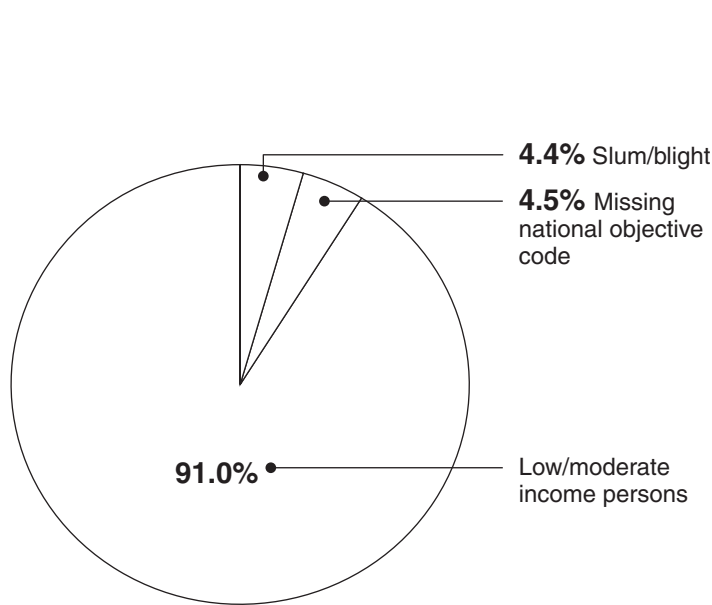


Sources: GAO (top two photos); City of Beloit, Wisconsin (middle two photos); Civil Technology, Inc. (bottom two photos).

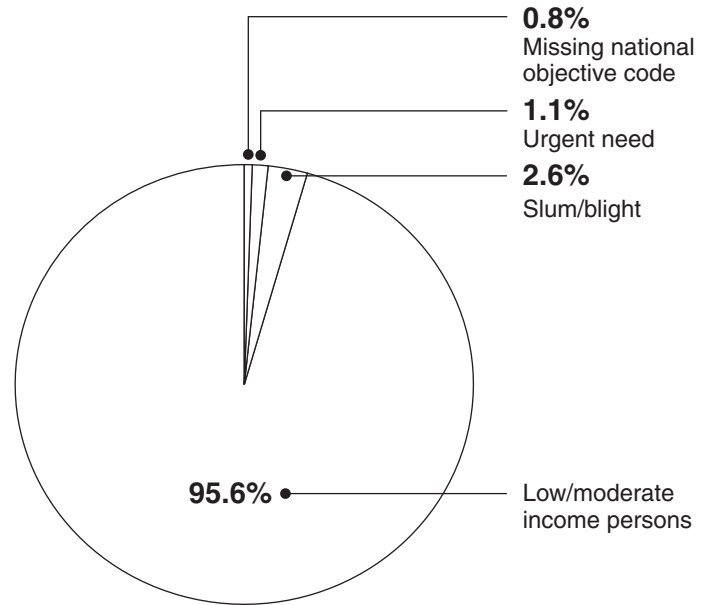
**Almost All Funded
Activities Benefit Low- and
Moderate-Income People,
but the Criteria for Defining
Target Areas Are Allowed to
Vary**

Of the three national program objectives, recipients report that the vast majority of activities they fund under the CDBG program meet the objective of principally benefiting low- and moderate-income persons. However, some recipients can use different criteria when defining low- and moderate-income areas. As shown in figure 5, entitlement communities reported that 91 percent of the activities they funded in fiscal year 2005 principally benefited low- and moderate-income persons; states reported that 96 percent of their activities met this national objective. The remaining activities funded, excluding activities coded for administration and planning, sought to eliminate slums or blight, addressed urgent needs, or were missing a national objective code. For the small percentage of activities missing a code, we could not determine which national objective was met. According to a HUD official, activities missing a national objective code were also administration and planning activities, however, we could not verify this statement based on our analysis of HUD's IDIS data.

Figure 5: FY 2005 CDBG Expenditures, by National Objective
Entitlement communities



States



Source: GAO analysis of IDIS data.

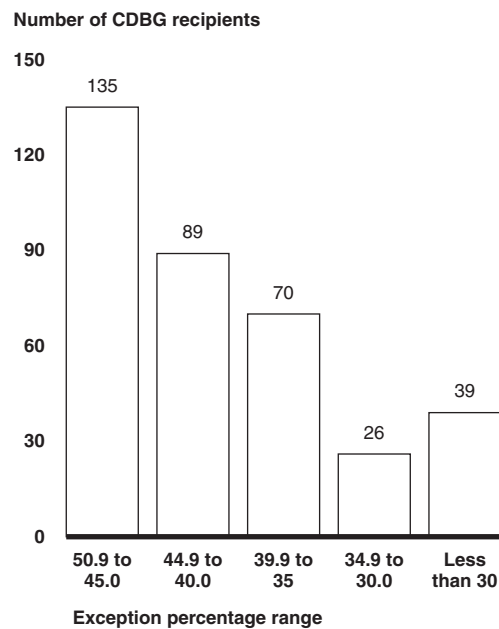
Note: Entitlement communities reported that 0.1 percent of the activities they funded addressed urgent needs. Numbers do not add to 100 percent due to rounding. The figure excludes expenditures coded as administration and planning, which are presumed to meet a national objective.

A special statutory exception allows certain entitlement communities to count activities that benefit fewer than 51 percent low- and moderate-income people as meeting the corresponding national objective. This exception allows the recipient to use the first 25 percent of all census tracts in its jurisdiction to qualify as meeting the national objective. For example, if a city or county consists of 40 census tracts, only 4 of which contain 51 percent or more low- and moderate-income persons, that recipient can also consider the 6 census tracts with the next highest percentages of low- and moderate-income persons as low- and moderate-income census tracts.

Currently, 359 of the 1,128 cities and urban counties that receive CDBG funds are eligible to use this exception. These recipients' exception percentages range from a high of 50.9 percent to a low of 18.5 percent. The exception percentage indicates the minimum percentage of low- and moderate-income people that must live in an area for an activity funded in

that area to meet the low- and moderate-income national objective. As shown in figure 6, the majority of recipients eligible for the exception had an exception percentage higher than 40 percent; 39 CDBG recipients had a percentage less than 30 percent. Although a recipient is eligible to use this exception, it may not take advantage of it for all of the activities it funds. First, the exception only applies when the activity—such as a park, community center, or streets—serves an identified geographic area. Many activities, such as public services, benefit low- and moderate-income people, not an area. Also, in cases where the recipient has both areas that contain a majority of low- and moderate-income people and areas that qualify for the exception, it may choose to fund only activities that are in its areas with a majority of low- and moderate-income people.

Figure 6: Number of Recipients Eligible to Use Alternative Criteria for Defining Low- and Moderate-Income Areas



Source: GAO analysis of HUD data.

HUD Does Not Centrally Maintain the Data Needed to Determine Compliance with Statutory Spending Limits on Public Service Activities and Administration and Planning

HUD does not centrally maintain the data needed to determine if entitlement communities and states are complying with the statutory spending limits on public services and administration and planning. Information on manual adjustments needed to determine compliance can be obtained from the field offices but is not readily available. By law, CDBG recipients may only use up to 15 percent of their funds on public service activities and up to 20 percent on administration and planning. We attempted to use the data in IDIS to assess each entitlement community's compliance with these spending limits but determined that certain manual adjustments that are needed to complete the calculations are not saved in IDIS.¹⁵ Entitlement communities enter these manual adjustments into IDIS at the end of each program year for the sole purpose of creating financial summary reports that show, among other things, the two spending limit calculations. Entitlement communities include these reports in the annual performance reports that they submit to HUD's 42 field offices for review. After they are prepared, the reports are saved in HUD's mainframe computer for only 5 days due to limited system capacity.

With respect to determining state compliance, data are even more limited. IDIS does not currently generate reports that show the spending limit calculations for states. The calculations that are used to determine an entitlement community's compliance do not work for states because a state's compliance is determined based on the percentage of each grant that is spent on public services and administration and planning instead of the percentage of each program year's obligations, as is the case for entitlement communities. Therefore, according to the HUD official that heads the state CDBG program, field staff currently determine compliance with the spending limits during on-site monitoring and when grants are fully spent. However, the official noted that future design enhancements to IDIS will allow HUD to more easily generate information on state compliance with these spending limits.

Without a record of data adjustments needed to calculate entitlement community compliance and data on state compliance, HUD cannot provide timely assurance that recipients are adhering to the spending limits. For example, when information on compliance with the administrative and planning spending limit was recently requested from HUD for a House

¹⁵These manual adjustments reflect amounts that affect the calculation but are not included in IDIS.

report, HUD could not provide data that directly addressed the request.¹⁶ The agency provided the data that were readily available but noted that the data could not be used to determine compliance with the spending limit. HUD stated that it would have to collect additional information on certain manual adjustments to give the committee a more accurate picture of compliance with the limit.

In the absence of centralized data on all recipients, we requested that HUD contact its field offices to provide data on the extent to which the 100 most populous entitlement communities had complied with the statutory spending limits in program year 2004. These entitlement communities received about one-third of the CDBG funds allocated in fiscal year 2006.¹⁷ Our analysis of the limited data showed that not all of these entitlement communities complied with the statutory spending limits.¹⁸ Of the 100 entitlement communities, 3 exceeded their public service spending limit, and 1 exceeded the administration and planning spending limit. HUD could not provide similar data on the extent to which individual states have complied with the spending limits because, as described earlier, IDIS does not generate reports that track state compliance with the limits. According to the head of the state CDBG program, compliance with the limits has never really been a concern for states because they collectively spend well below the statutory maximums.

Congress Has Provided Some Exceptions to the Public Service Spending Limit

Some recipients are allowed, due to a special provision, to use more than 15 percent of their funds for public services. By law, entitlement communities that used in excess of 15 percent of CDBG funds received for public service activities in fiscal year 1982 or 1983 are allowed to continue to use the higher of the actual dollar amount or percentage of assistance in either of those years. Due to this provision, a total of 41 entitlement communities are allowed to use more than the 15 percent they would have been allowed if they were subject to the cap. For example, the city of

¹⁶House Committee on Government Reform, *Bringing Communities into the 21st Century: A Report on Improving the Community Development Block Grant Program*, Report 109-365, January 31, 2006.

¹⁷The percentage reported only reflects funds allocated to 99 of the 100 entitlement communities because Jefferson County, Kentucky was no longer listed as a separate entitlement community in fiscal year 2006.

¹⁸We do not know to what extent the 100 most populous entitlement communities are reflective of the 1,128 entitlement communities; therefore, results of this analysis cannot be generalized to all entitlement communities.

Chicago, Illinois is allowed to use \$41 million (48 percent of its fiscal year 2006 allocation) for public services. The city of Seattle, Washington is allowed to use about 36 percent of its CDBG funds for public services. Congress has also authorized temporary exceptions to the spending limit when warranted by events affecting a specific community. These temporary exceptions are for a limited period of time, such as 5 years, and a limited amount, such as up to 25 percent of their grant amount, unless extended by law. For instance, the city and county of Los Angeles were allowed to exceed the limit for a set period of time in the aftermath of the 1992 Los Angeles civil unrest. Also, in September 2005, HUD issued a suspension of the limit to enable CDBG recipients to utilize CDBG funds to address emergency expenses associated with the needs of Hurricane Katrina evacuees.¹⁹

Not All Staff and Overhead Costs Funded with CDBG Are Subject to the Planning and Administration Spending Limit

The expenses subject to the spending limit on administration and planning do not reflect all of the staff and overhead costs being funded with CDBG. CDBG recipients are allowed by regulation to incorporate into individual activity budgets delivery costs such as architectural and engineering expenses, legal expenses, insurance, permit fees, taxes, and similar expenses if such expenses are directly attributable or integral to carrying out an eligible activity. These expenses are not counted toward the 20 percent administrative and planning spending limit. With the exception of housing rehabilitation administration and code enforcement, HUD does not track staff costs charged to various eligible activities. In fiscal year 2005, CDBG recipients spent \$153 million on housing rehabilitation administration and \$133 million on code enforcement—about 6 percent of total expenditures. While funds charged to planning and administration are presumed to meet the program’s national objectives, HUD requires recipients to document that any staff or overhead costs charged to other eligible activities meet a national objective.

HUD Has Established a New Performance Measurement System to Track Program Accomplishments

HUD has established a new performance measurement system to better track accomplishments achieved with CDBG funds. IDIS currently contains data on CDBG-funded accomplishments, but the data are incomplete and inconsistent. First, HUD has not always required recipients to enter accomplishment data; therefore, data on the older projects are incomplete.

¹⁹This suspension was issued pursuant to a statutory provision that allows the Secretary of Housing and Urban Development to suspend most, but not all, statutory requirements in cases where the President has issued a federal disaster declaration.

Second, recipients report data differently. For example, some CDBG recipients report the number of persons served by a CDBG funded activity, while other recipients report the number of times a service is provided. In an effort to address these problems, HUD began verifying the accuracy of CDBG accomplishment data in 2004. To ensure complete and accurate data, HUD periodically reviews the data that recipients enter into IDIS for inconsistencies, inaccuracies, and omissions. HUD then gives the recipients feedback by placing spreadsheets on the Web for each recipient that indicate the fields in IDIS that need correction.

To further track program accomplishments, HUD has developed a new performance measurement system for the CDBG program. In March 2006, HUD published performance measures developed in conjunction with a working group comprised of community development organizations. They undertook this effort in reaction to an OMB finding that the CDBG program was unable to demonstrate results at the national level.²⁰ HUD's new outcome performance measurement system has three objectives: (1) creating suitable living environments, (2) providing decent affordable housing, and (3) creating economic opportunities. Under these broad objectives, there are three outcomes: (1) availability and accessibility, (2) affordability, and (3) sustainability. The specific outcome indicators that HUD will track include the number of persons assisted by a public service activity, number of housing units rehabilitated, and number and types of jobs created. Recipients could start entering the new performance measurement data in May 2006.

To help recipients implement the new performance measurement system, HUD has scheduled 15 regional training sessions that will provide information to recipients on performance measurement principles and the new outcome framework. The first session was held in May 2006, and the last session is scheduled for August 2006. According to HUD, the training sessions will (1) provide information about how recipients can implement the outcome indicators through their local and state procedures for data collection and reporting and (2) discuss entry of the performance data into IDIS. The agenda topics include data quality and how to measure the

²⁰OMB, *Department of Housing and Urban Development PART Assessments*, February 2005. OMB uses its Program Assessment Rating Tool (PART) to assess and improve program performance so that the federal government can achieve better results. PART looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results.

outcome of various activities such as housing and economic development. For this training, HUD has developed a training manual and guidebook that contains information on measuring outcomes achieved with CDBG funds. The department has made these materials available to all recipients on its Web site. At the close of our review, these activities were too new to assess their effectiveness.

Although HUD Uses a Risk-Based Approach to Monitor CDBG Recipients, It Lacks a Plan to Replace Monitoring Staff and Has Not Fully Involved Field Staff in Its Plans to Redesign IDIS

While HUD has implemented a risk-based monitoring strategy for the CDBG program, it has not developed a plan to ensure that it has enough staff with the skills needed to conduct monitoring or fully involved its field staff in plans to redesign IDIS, an information system they use to monitor recipients. Consistent with our internal control standards, HUD has established a risk assessment process to identify CDBG recipients for review.²¹ HUD's monitoring strategy calls for its field offices to consider various risk factors when determining which recipients to review because it has limited monitoring resources, and its workload has increased as its staffing levels have decreased. For example, 13 of the 42 field offices overseeing CDBG recipients do not have a financial specialist, and 39 percent of its field staff is eligible to retire within the next 3 years. Despite these statistics, HUD has not developed a plan to hire staff with needed skills or help manage upcoming retirements. Finally, although IDIS is one of the tools that HUD field staff use to monitor recipients, HUD headquarters has solicited little input from them on efforts to redesign IDIS.

HUD's Monitoring Strategy Focuses on High-Risk Recipients

HUD's monitoring of the CDBG program focuses on high-risk recipients. Each year, CPD sets a formal monitoring goal. Its goal in fiscal year 2005 was for CPD as a whole and each of its field offices to monitor a minimum of 20 percent of their formula and competitive recipients.²² According to the HUD official who set the goal, he set it at 20 percent based on the need to balance government stewardship with available resources, including staff and travel funds. With a 20 percent goal, he noted that it would be conceivable that every recipient would be monitored over a period of 5 years. Overall, CPD met its monitoring goal for fiscal year 2005. CPD's goal

²¹GAO/AIMD-00-21.3.1.

²²This 20 percent goal applies to CDBG as well as the other formula and competitive grant programs that CPD administers.

was to review 942 recipients, and it completed 977 reviews. Of the 977 reviews, 349 were CDBG reviews. However, two individual field offices did not monitor 20 percent of their recipients.²³ As shown in table 2, CPD has monitored more than 20 percent of its CDBG recipients in recent years.

Table 2: Percentage of CDBG Recipients Monitored, FY 2001-2005

Fiscal year	Total recipients	Recipients monitored	Recipients not monitored	Percentage of recipients monitored
2001	1,067	366	701	34.3
2002	1,078	408	670	37.8
2003	1,088	363	725	33.4
2004	1,158	373	785	32.2
2005	1,165	349	816	30.0

Source: GAO analysis of GMP data.

Note: Total recipients consist of entitlement communities, states, and insular areas (American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands).

HUD’s monitoring policy calls for HUD staff to focus on high-risk recipients when selecting CDBG recipients for review. Consistent with our internal control standards, HUD has developed a formal risk analysis process for its field offices to use when determining which recipients to review.²⁴ Field office staff rate recipients on various factors that fall under the following four categories: financial, management, satisfaction, and services.²⁵ The

²³The two offices that did not monitor 20 percent of their recipients in fiscal year 2005 were Fort Worth, Texas and Philadelphia, Pennsylvania. According to HUD officials, the Fort Worth office did not meet its goal because it was very involved in the Hurricane Katrina disaster recovery process. The Philadelphia office did not meet its goal because the staff person assigned to complete the remaining two monitoring visits passed away suddenly.

²⁴GAO/AIMD-00-21.3.1.

²⁵The financial factors considered include the size of the grant, how timely the recipient has been in expending its grant funds, and the extent to which the recipient has received program income. The management factors evaluated include the complexity of the activities that a recipient undertakes, the timeliness and accuracy of the recipient’s submissions, a recipient’s staff capacity, and how long it has been since HUD last monitored the recipient on site. The satisfaction factors examined include whether the recipient has received citizen complaints and how responsive the recipient has been to any citizen complaints. The service factors considered are whether the recipient has met the program’s national objectives and complied with the limitation on public service expenditures.

staff total the scores from each factor and assign recipients a final score on a 100-point scale. At each field office, a CPD management representative then conducts a review to ensure the validity and consistency of the scores. HUD considers recipients that receive a score of 51 or greater to be high risk; it considers those with a score of 30 to 50 to be medium risk; and those with less than 30 it considers to be low risk. Recipients that receive a high-risk rating are subject to monitoring, unless a management representative approves an exception. CPD management representatives can approve an exception if (1) the HUD Office of Inspector General is auditing the recipient; (2) they determine that monitoring is administratively infeasible in the current year, given other monitoring actions; or (3) they have other reasons—such as HUD recently monitored the recipient or it monitored another program administered by the recipient. Field office staff must review high-risk recipients on site unless they reviewed them on site in the last 2 years, and the purpose of the monitoring is to validate the implementation of corrective actions. Medium- and low-risk recipients can be reviewed using remote, or off-site, monitoring.

Our review of data from GMP—the system that field staff use to record the results of the risk analysis process and any monitoring performed—showed that HUD’s field offices followed the risk analysis process in all but 16 cases in fiscal year 2005. For fiscal year 2005, HUD designated 164 recipients as high risk. Out of these 164 recipients, GMP data showed that 107 were monitored, 41 were granted an exception, and 16 were not monitored or provided an exception.²⁶ The risk scores assigned to the 16 high-risk recipients that HUD did not monitor or provide an exception ranged from a low of 51 to a high of 80.²⁷ These 16 recipients received allocations totaling about \$145 million in fiscal year 2005. They included Detroit, Michigan (\$43 million), Oregon (\$16 million), and Honolulu, Hawaii (\$11 million). According to HUD, these recipients were

²⁶According to HUD officials, 4 of the 16 recipients that GMP showed were not monitored or granted an exception were monitored in fiscal year 2005, but the documentation was not completed in time to be counted in fiscal year 2005. The city of New Orleans was monitored in August 2005, just before Hurricane Katrina, but did not show up as being monitored because a monitoring letter was never completed. Similarly, HUD monitored three more recipients at the end of fiscal year 2005, but they did not show up as being monitored because the monitoring letters were not finalized prior to the end of the fiscal year.

²⁷Ten of the 16 high-risk grantees were last reviewed in fiscal year 2004, three were last reviewed in fiscal year 2003, two were last reviewed in fiscal year 2001, and one was a new grantee in fiscal year 2004.

not monitored or granted an exception either because its field staff misunderstood the exception requirements or the field office responsible for monitoring the recipient experienced a staffing shortfall. However, despite not monitoring these 16 high-risk recipients, 8 of the 12 responsible field offices monitored recipients that they did not consider high risk.

Further, we found that HUD reviewed most, but not all, CDBG recipients at least once in the 5-year period from fiscal year 2001 through fiscal year 2005. As shown in table 3, our analysis of GMP data showed that HUD monitored all but 255 recipients in fiscal years 2003 through 2005. These 255 recipients received about \$525 million in fiscal year 2005 funding. When we expanded our analysis to 4 years (fiscal years 2002 through 2005), we determined that HUD had monitored all but 140 recipients that received a total of about \$239 million in fiscal year 2005. During the 5-year period from fiscal year 2001 through 2005, HUD did not monitor 84 recipients that received a total of about \$132 million in fiscal year 2005.

Table 3: Number of Times CDBG Recipients Were Monitored, FY 2001-2005

Number of times monitored	3-year period (FY 2003-2005) ^a	4-year period (FY 2002-2005) ^b	5-year period (FY 2001-2005) ^c
Not monitored	255	140	84
Once	588	502	396
Twice	190	300	352
Three times	33	94	151
Four times	N/A	21	48
Five times	N/A	N/A	16

Source: GAO analysis of GMP data.

^aWe excluded 77 recipients that were not entitlement communities all 3 years, resulting in a total of 1,066 recipients. HUD monitored 12 of the 77 new entitlement communities once during the 3-year period.

^bWe excluded 86 recipients that were not entitlement communities all 4 years, resulting in a total of 1,057 recipients. HUD monitored 16 of the 86 new entitlement communities once during the 4-year period.

^cWe excluded 96 recipients that were not entitlement communities all 5 years, resulting in a total of 1,047 recipients. HUD monitored 22 of the 96 new entitlement communities once during the 5-year period.

Monitoring recipients is critical because it often results in findings. During our site visits, we reviewed 144 recipient files and found documentation

problems.²⁸ For example, 24 of the 144 files we reviewed did not contain sufficient documentation to show that the activity met one of the three national objectives, as required by the program.²⁹ Another 14 files did not note which national objective the activity was supposed to meet. Additionally, 46 files we reviewed showed no evidence of monitoring by the recipient.³⁰ In contrast, recipients we visited tended to have signed agreements with their subrecipients as required by program regulations. Of the 90 cases that involved a subrecipient, 87 files contained a signed subrecipient agreement, and 76 of the 87 agreements contained the five required elements we tested. When HUD reviews files during its monitoring, it finds similar occurrences. Fifty-seven percent of HUD's fiscal year 2005 reviews resulted in at least one finding. In total, HUD's fiscal year 2005 monitoring resulted in 581 findings and 447 concerns.³¹ Examples of cited findings included not documenting a national objective, funding an ineligible activity, poor recordkeeping, and incomplete subrecipient requirements.

HUD Has Limited Staff and Travel Funds to Devote to CDBG Monitoring

HUD employs a risk-based monitoring approach because it has limited staff and travel funds to devote to CDBG monitoring. CPD's staffing levels have decreased nationwide, as its CDBG workload has increased. From fiscal year 1993 to the beginning of fiscal year 2006, the number of CPD field office staff decreased from 751 to 599, a decline of 20 percent. During the same time period, the number of entitlement communities grew from 889

²⁸We reviewed documentation on 134 projects, of which 4 involved multiple activities or files, for a total of 144 files.

²⁹The documentation required varies based on the national objective. For instance, if CDBG funds were spent on an activity that benefited low- and moderate-income people based on the creation of jobs, the recipient must document (1) that it entered into a written agreement with the assisted business containing a commitment by the business that at least 51 percent of the jobs would be held by low- and moderate-income people and a listing by job title of the full and part-time permanent jobs to be created; (2) the number of permanent jobs filled and which jobs were initially held by low- and moderate-income people; and (3) for each low- or moderate-income person hired, the size and annual income of the person's family prior to the person being hired for the job.

³⁰When assessing the extent of monitoring performed, we excluded the six projects that were administration and planning projects.

³¹A finding is a deficiency in program performance based on a statutory, regulatory, or program requirement for which sanctions or other corrective actions are authorized. A concern is a deficiency in program performance not based on a statutory, regulatory, or other program requirement.

to 1,128, an increase of 27 percent. This increase in workload has had a greater effect on certain CPD field offices. As of February 2006, the average number of CDBG recipients per program representative was nearly four.³² The number of recipients per representative exceeded this average at 20 of the 42 CPD field offices and was six or more at three offices.³³ The HUD official responsible for CPD field office staff told us he would like to have more staff but has to get the work done with what he has. Additionally, CPD program representatives in their role as program monitors oversee other HUD programs, including three other formula grant programs, homeless programs, and a number of smaller competitive grant programs. For example, at the Chicago CPD office, each representative monitors four to six formula grants, as well as approximately 100 competitive grants. Although they represent fewer dollars than the formula grant programs, the competitive grant programs require more monitoring, according to CPD program managers. The programs are generally administered by small nonprofit organizations that experience a large amount of staff turnover. Further, there were 9,705 active competitive grants in fiscal year 2005.

A number of CPD field offices also do not have a financial analyst. Financial analysts are important because they evaluate the financial operations of each recipient and ensure that CPD's monitoring activities adequately address any financial vulnerabilities in CPD programs and related capacity concerns. They help field offices review budget submissions, financial report submissions, independent audit reports, and drawdown requests. As of late April 2006, 13 of the 42 CPD field offices did not have a financial analyst. These 13 field offices averaged a CDBG portfolio of \$60 million. In offices we visited that did not have a financial analyst, other staff assumed some of the responsibilities of a financial analyst, but these staff had other responsibilities as well and lacked the specialized skills of a financial analyst.

Staffing shortages may worsen in the future because many current CPD field staff are eligible to retire. As of February 2006, 39 percent of CPD field staff was eligible to retire within the next 3 years. If we include those eligible for early retirement, the percentage increases to 59 percent within

³²A program representative is in charge of working with a recipient to provide technical assistance, training, program guidance, and monitoring.

³³We focused on program representatives because they are primarily responsible for monitoring recipients, but other CPD staff are sometimes assigned recipients to monitor.

the next 3 years. For example, the four officials we interviewed in the Milwaukee field office told us that they were all currently eligible to retire, including the CPD Director. Denver field office officials told us that the office could lose all but one of its program representatives to retirement in the next 5 years.

HUD has not developed a plan to hire staff with needed skills, such as financial analysts, or to help CPD manage upcoming retirements. Our internal control standards state that agencies, as part of their human capital planning, should consider how to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.³⁴ According to a HUD official, HUD has taken a number of steps to manage its CPD workforce, such as hiring interns and implementing a leadership development program. However, these efforts do not specifically address the need to hire financial analysts and replace the staff that will become eligible for retirement in the next few years. According to internal control standards, an agency should have a specific and explicit workforce planning strategy that allows for identification of current and future human capital needs and a formal recruiting and hiring plan with explicit links to skill needs the agency has identified.³⁵

HUD internal reviews and the HUD Inspector General have also noted that limited staffing has negatively impacted CPD's monitoring. In fiscal year 2004, 11 of the 12 internal management reviews, known as Quality Management Reviews, performed at CPD field offices noted staffing issues.³⁶ For example, the reports noted that one office might not meet its monitoring goals due to significant loss of staff and that staff at two offices had an unbalanced workload. Also, one report noted that the field office needed a financial analyst for oversight of \$113 million in CPD program funds. Furthermore, in a June 2004 report on CPD management controls, the HUD Inspector General observed that reductions in field office staffing

³⁴[GAO/AIMD-00-21.3.1](#).

³⁵GAO, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001).

³⁶Quality Management Reviews are HUD-wide management reviews of its field office programs and services.

levels had impacted CPD's monitoring capabilities.³⁷ The report noted that, between 1993 and 2003, CPD had been negatively impacted by staffing challenges that had plagued all of HUD.

Further, according to HUD field office staff, limited travel budgets have affected their ability to monitor CDBG recipients. For fiscal year 2005, the travel budget for all 42 CPD field offices was about \$392,000. The travel budgets for the six field offices we visited ranged from \$2,528 in Baltimore (11 CDBG recipients) to \$20,691 in Los Angeles (105 CDBG recipients). Some field office staff told us their travel budgets affect which recipients they select for on-site monitoring during the risk assessment process. For example, they will limit their monitoring of recipients that require a high cost of travel. They will either conduct off-site monitoring or document an exception, which allows them to monitor these recipients less often despite their risk analysis score. Additionally, when monitoring recipients, field office staff sometimes shorten their visit to fit within their travel budget. In its June 2004 report, the HUD Inspector General reported similar findings and added that field offices will also reduce the amount of staff participating in a monitoring visit in order to reduce travel costs. According to the headquarters official that manages CPD's field offices, he has to balance the travel needs of all 42 field offices when allocating limited travel funds. To help the field offices better plan their travel, he has begun providing them with quarterly, rather than monthly, allocations of funds.

HUD Has Made Little Effort to Involve Field Staff in Plans to Redesign IDIS

HUD is currently redesigning IDIS but has solicited limited input from its field staff. IDIS, a tool that HUD field staff use to conduct on-site and off-site monitoring, has shortcomings that limit its usefulness as a monitoring tool. IDIS was designed to be a real-time information system providing financial disbursement, tracking, and reporting functions for CPD. In our April 1999 report, we noted that the system was not providing needed information, and our current work indicates that, despite HUD improvements to the system, it still is not providing all the information needed to monitor recipients' performance. During our site visits, field office staff noted that (1) the data in IDIS are not always current because some recipients do not update it quarterly, as HUD recommends and (2) the accomplishment data in IDIS are not as reliable as the financial data. As

³⁷U.S. Department of Housing and Urban Development, Office of Inspector General, *Audit of Management Controls over Grantee and Subgrantee Capacity, Community Planning and Development*, 2004-FW-0001 (June 2004).

previously noted, HUD is currently working with recipients to improve the quality of the accomplishment data. Also, a HUD headquarters official noted that HUD plans to add reports that will better assist field staff with their monitoring. Similarly, in a report on how to incorporate performance measures into IDIS, the National Academy of Public Administration found that (1) IDIS allows data input errors and omissions, (2) the ability to manipulate data for reporting purposes is limited, and (3) HUD staff and recipients have expressed frustration with using the system.³⁸

To improve the usefulness of IDIS, HUD is currently reengineering the system. The department has obligated \$9.4 million for development of the new system. One problem with the initial development of IDIS was that HUD did not adequately consider input from end users. HUD has attempted to address this problem in the statement of work for the new system by stating that the contractor should gather requirements from HUD stakeholders and recipients. Specifically, the contractor was to work with HUD's field offices to identify issues with the current accomplishment reporting, hold sessions with both field office staff and recipients to solicit user requirements pertaining to reports, and develop a draft prototype to solicit HUD stakeholder and recipient feedback on proposed navigation approaches. Soliciting input from end users on their requirements is consistent with best practices for system development. Our guidance on information technology investment management states that (1) investment control processes should ensure that key customers and business needs for each project are identified and that the users are engaged in this process and (2) users should participate in project management throughout a project's or system's life cycle to ensure that it supports the organization's business needs and meets users' needs.³⁹

Contrary to the IDIS statement of work and our guidance on information technology investment management, HUD headquarters and its contractor have solicited little input from field staff. As the HUD staff tasked with monitoring CDBG recipients, field staff are the users that rely most heavily on IDIS as a monitoring tool. Although HUD headquarters and the

³⁸Staff Report from the National Academy of Public Administration for the Office of Community Planning and Development, U.S. Department of Housing and Urban Development, *Integrating CDBG Performance Measures into IDIS* (Washington, D.C.: February 2005).

³⁹GAO, *Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity*, [GAO-04-394G](#) Version 1.1 (Washington, D.C.: March 2004).

contractor have held only one session with field staff, they have already drafted a document outlining the system's functional requirements. According to the HUD official that is overseeing development of the new system, the one session held with field staff was unproductive; therefore, they plan to wait until they are making decisions regarding the standard reports that the system will generate to solicit additional input from field office staff. If HUD's plans to involve its field staff in efforts to improve IDIS are limited to soliciting input regarding the new system's reporting capabilities, the other factors that have limited IDIS' effectiveness as a monitoring tool may not be addressed.

HUD Has Implemented a Clear Timeliness Policy, but Has Not Issued Similar Guidance on Other Enforcement Actions

Although HUD has issued a clear policy stating what actions it will take when entitlement communities fail to meet the statutory requirement that funds be spent in a timely manner, it has not developed similar guidance establishing a consistent framework for holding CDBG recipients accountable for deficiencies identified during monitoring. Because federal law requires HUD to ensure timely expenditure of entitlement funds, HUD has set a timeliness standard for entitlement communities and established a grant reduction policy for recipients that exceed the standard. As it monitors CDBG recipients, however, HUD has the flexibility to assess other sanctions ranging from issuing a warning letter to advising the recipient to pay back CDBG funds. HUD headquarters has not issued guidance that describes the conditions under which each type of sanction should be taken, and we found instances in fiscal year 2005 where findings that appeared to be similar were associated with different enforcement actions.

HUD's Timeliness Policy Has Reduced the Number of Entitlement Communities That Are Slow to Expend Funds

By implementing a timeliness standard, HUD has reduced the number of entitlement communities that are slow to expend funds. Federal law requires HUD to review CDBG entitlement communities to determine if they have carried out their CDBG-assisted activities in a timely manner.⁴⁰ It considers an entitlement community to be timely if, 60 days prior to the end of the recipient's current program year, the amount of entitlement grant funds available under grant agreements but undisbursed by the U.S. Treasury was not more than 1.5 times the entitlement grant amount for its

⁴⁰While HUD encourages states to expend their funds in a timely manner, its timely expenditure standard does not apply to them. Federal law only requires states to distribute their funds to nonentitlement communities in a timely manner. HUD does not have the statutory authority to impose a timely expenditure standard for states.

current program year. To ensure that entitlement communities comply with this standard, HUD established a grant reduction policy for untimely recipients in November 2001. The new policy stated that an untimely recipient had 1 year to become timely. If it still did not meet the 1.5 standard at the end of its next program year, HUD would reduce its next grant by how much it exceeded the standard, unless HUD determined that the lack of timely spending was due to factors beyond the recipient's control. For example, if a recipient's annual grant was \$1 million and its 60-day ratio was 1.57, the maximum amount of the reduction would be \$70,000 (0.07 times \$1 million).

Since the implementation of this grant reduction policy, the number of untimely entitlement communities has gone down from 140 in November 2001 to 65 as of April 2006. Of the 65 recipients that were untimely as of April 2006, 8 had a 60-day ratio above 2.0. The remaining recipients had 60-day ratios between 1.51 and 2.0. Although HUD could not provide a list showing the total number of recipients that have been untimely for only a year since the inception of the standard, it has tracked the total number that were untimely for 2 consecutive years and, therefore, subject to grant reduction. As of April 2006, 14 recipients had been subject to grant reduction. Of these 14, HUD only reduced three recipients' funding. It granted exceptions to six recipients due to factors such as natural disasters that triggered Presidential disaster designations and did not take action against three because HUD failed to provide proper notice to the recipient when it first became untimely. The remaining two had moved under the 1.5 standard quickly, and HUD decided not to reduce their grants.

Guidance Could Help Ensure Sanctions Are Appropriate

When they identify deficiencies other than failing to meet the timeliness standard, HUD's field offices have the flexibility to determine which sanctions are warranted based on the conditions identified. As shown in table 4, HUD's monitoring of CDBG recipients during fiscal years 2003 to 2005 resulted in approximately 1,900 findings and about 350 sanctions. In fiscal year 2005, HUD assessed 95 sanctions, including about \$1.6 million in financial sanctions.

Table 4: Sanctions Taken against CDBG Recipients, FY 2003 - 2005

Fiscal year	Concerns	Findings	Sanctions	Amount of financial sanctions
2003	538	685	110	\$2,025,487
2004	488	644	147	7,217,377
2005	447	581	95	1,616,704
Total	1,473	1,910	352	\$10,859,568

Source: GAO analysis of GMP data.

Note: Some, but not all, sanctions result in a financial action.

The sanctions that HUD may take against recipients range from issuing a letter of warning to advising recipients to reimburse their lines of credit.⁴¹ Beyond the program regulations that describe the purpose of taking corrective actions and the various actions that can be taken, HUD has issued no guidance to its field offices describing what conditions its field staff should consider when taking corrective actions and what specific conditions warrant different types of corrective actions.⁴² Instead, its 42 field offices have the flexibility to determine the types of sanctions for findings that they identify. According to HUD headquarters officials, field offices may call HUD headquarters for advice before taking sanctions against a recipient. Figure 7 shows that the action taken the most often during fiscal year 2005 was that of advising the recipient to alter or end an activity.

⁴¹If the recipient fails to take corrective or remedial action that resolves the deficiency to the satisfaction of HUD, HUD may impose more severe sanctions, such as terminating payments to the recipient. However, HUD may impose these sanctions only after, in most circumstances, the recipient is provided an opportunity for a hearing before an administrative law judge.

⁴²The program regulations state that corrective actions should be designed to (1) prevent a continuation of the performance deficiency; (2) mitigate, to the extent possible, the adverse effects or consequences of the deficiency; and (3) prevent a recurrence of the deficiency.

Figure 7: Sanctions Taken as Result of FY 2005 Monitoring Reviews, by Type

Type of sanction (occurrences)	Percentage of all sanctions
End/alter activity (46)	48.4%
Other (26)	27.4
Reimburse line of credit (12)	12.6
Warning letter (5)	5.3
Change payment (3)	3.2
Suspend disbursement of funds (2)	2.1
Reprogram funds (1)	1.1
All (95)	100.0%

Source: GAO analysis of GMP data.

Note: Numbers do not add to 100 percent due to rounding. In one of the few cases where HUD advised a recipient to change a payment, it advised the recipient to reimburse expenses improperly charged to others. In the one case where HUD advised a recipient to reprogram funds, it advised the recipient to shift the funds to an eligible activity. The other sanctions that HUD took included advising recipients to provide additional documentation, collect additional information on people served, or report activities differently in IDIS.

Our internal control standards state that agencies should implement control activities, which are policies and procedures that enforce management’s directives and ensure accountability.⁴³ One such strategy is to document the steps taken to implement internal controls. Such documentation should be clear and readily available. Contrary to these standards, HUD has not clearly documented the steps that its field offices take to determine the appropriate sanctions when deficiencies are identified during monitoring. Such guidance could establish the parameters within which field office should operate, while still allowing for consideration of individual situations. By establishing a framework within which field offices should operate, HUD headquarters could instill accountability as well as allow field staff to make individual judgments based on factors such as a recipient’s past performance and the frequency and severity of findings.

In the absence of guidance, HUD’s field offices have treated recipients that committed similar infractions differently. In our meetings with several national organizations that represent CDBG recipients, representatives

⁴³GAO/AIMD-00-21.3.1.

noted that their members have observed inconsistent interpretation of program regulations across HUD field offices. Further, we found instances where deficiencies identified in fiscal year 2005 seemed similar to us but different corrective actions were taken.

- Inability to support meeting a national objective: When one field office found that a recipient could not support that an activity met a national objective, it asked the recipient to provide either more documentation or a written assurance that it would not fund that type of activity in the future. In contrast, another field office advised a recipient that could not document that an activity met a national objective to reimburse its line of credit. In another instance, a field office stated that it might disallow expenditures if the recipient could not document that an activity met a national objective.
- Documenting environmental reviews: When one field office determined that a recipient had not documented any follow-up compliance actions for projects where mitigating measures for environmental compliance were identified, even after the office had previously identified the lack of follow up as a concern, it advised the recipient to submit documentation showing that follow-up actions had been taken. In another case where a field office determined that a recipient had failed to fully document its environmental reviews, that field office advised the recipient to suspend disbursement of funds for all activities until it put in place revised environmental review procedures and the appropriate level of environmental review had been carried out.

Guidance providing HUD's 42 field offices with a range of appropriate actions for identified deficiencies could help to provide greater transparency and accountability, and it could better ensure consistency of sanctions for similar infractions.

Conclusions

Many communities use their CDBG funds to benefit their residents and increase the economic health of the community. One of the cited strengths of the program is its flexibility, which allows communities to make decisions locally about the best use of the funds in their community. Given the program's flexibility, it is critical that HUD ensure that recipients use funds in a manner that is consistent with the purposes of the program. While there are statutory spending limits on public services and planning and administration, HUD does not centrally maintain the data needed to determine compliance with these spending limits in a timely manner.

Entitlement communities collectively spend at or close to the limits on public services and planning and administration. Therefore, it is important for HUD to be able to report on the extent of entitlement community compliance with these limits. Without these data readily available, HUD cannot provide timely assurance that recipients are adhering to these limits.

With program funding being cut as the number of grant recipients increases, it is essential for HUD to ensure that recipients use funds properly. Because it has limited monitoring resources, HUD has implemented a risk-based process to identify recipients for review. However, HUD faces challenges as it carries out these responsibilities. First, a large percentage of the field staff responsible for monitoring CDBG recipients will be eligible for retirement within the next 3 years. HUD has not developed a plan for replacing this vital program expertise. HUD has established an internship program and other initiatives to develop senior leaders, but such activities will not, in themselves, replace experienced professionals. Without such a plan, HUD has no way to ensure continuity of needed skills and abilities. Second, HUD is reengineering IDIS—the system that it relies on to monitor recipients it cannot review on-site—to address a number of shortcomings in the system, but its plans to involve HUD field staff in these efforts are limited to soliciting input regarding the new system’s reporting capabilities. If it does not fully involve all of the system’s stakeholders in the reengineering process, as it failed to do when initially developing the system, HUD runs the danger of repeating past development mistakes and having to live with a flawed system that limits its monitoring abilities. Developing a system that better meets the monitoring needs of HUD field staff has increased in importance in an environment where the number of monitoring staff is declining as the workload is increasing.

While allowing for judgment and flexibility, an effective monitoring program should also make it transparent to recipients what actions may be taken if deficiencies are found. HUD has established a clear policy stating that it will reduce an entitlement community’s grant funds if it fails to spend its funds in a timely manner, and, as a result, the number of untimely recipients has dropped. However, HUD has not developed similar guidance laying out a framework of enforcement actions that may be taken when certain deficiencies are identified during monitoring, and we found instances where findings that appeared to be similar were associated with different enforcement actions. Such guidance could establish the parameters within which field offices should operate, while still allowing for flexibility to address individual situations. Issuing guidance could also

help HUD's management provide greater transparency and accountability to the sanctioning process.

Recommendations for Executive Action

In order to improve HUD's oversight of the CDBG program, we recommend that the Secretary of Housing and Urban Development direct the Assistant Secretary for Community Planning and Development to take the following four actions:

- Maintain in IDIS the data needed to determine compliance with the statutory limitations on expenditures for public service activities and administration and planning.
- Develop a plan for ensuring the proper mix of skills and abilities and replacing an aging CPD workforce.
- Look for additional opportunities to solicit field staff input on IDIS user requirements.
- Consider developing guidance for the CDBG program that details what conditions should be considered when taking corrective actions and what specific conditions warrant different types of corrective actions.

Agency Comments and Our Evaluation

We provided HUD with a draft of this report for review and comment. We received oral comments from the Office of Community Planning and Development's Comptroller on July 12, 2006, addressing our key findings, conclusions, and recommendations. He stated that, overall, HUD agrees with our findings, conclusions, and recommendations. In addition, HUD provided a letter from the General Deputy Assistant Secretary for Community Planning and Development with comments that were technical in nature. This letter and our response to each of the comments appear in appendix IV. HUD also provided other oral technical comments that were incorporated where appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies of this report to the Ranking Minority Member, Subcommittee on Housing and Community Opportunity, House Committee on Financial Services; Ranking Minority

Member, Subcommittee on Federalism and the Census, House Committee on Government Reform; Ranking Minority Member, Subcommittee on Federal Financial Management, Government Information, and International Security, Senate Committee on Homeland Security and Governmental Affairs; and the Chairman and Ranking Minority Member, Subcommittee on Housing and Transportation, Senate Committee on Banking, Housing, and Urban Affairs. We will also send copies to the Secretary of Housing and Urban Development. Copies of this report will also be available to other interested parties upon request. In addition, the report will be made available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.



William B. Shear
Director, Financial Markets and
Community Investment

Objectives, Scope, and Methodology

The Chairman of the Subcommittee on Housing and Community Opportunity, House Committee on Financial Services; the Chairman of the Subcommittee on Federalism and the Census, House Committee on Government Reform; and the Chairman, Subcommittee on Federal Financial Management, Government Information, and International Security, Senate Committee on Homeland Security and Governmental Affairs requested that we review the use of Community Development Block Grant (CDBG) funds and how the Department of Housing and Urban Development (HUD) oversees the program. In particular, we examined (1) how recipients have used CDBG funds, including the extent to which they have funded activities that meet national program objectives, complied with spending limits, and reported accomplishments achieved with funds; (2) how HUD has monitored recipients' use of CDBG funds; and (3) how HUD has held recipients that have not complied with CDBG program requirements accountable for their actions.

To accomplish these objectives, we analyzed fiscal year 2005 data from HUD's Integrated Disbursement and Information System (IDIS) and fiscal year 2001 through 2005 data from the Grants Management Process (GMP) System on all CDBG recipients. We assessed the reliability of the HUD data we used by reviewing information about the systems, performing electronic data testing to detect errors in completeness and reasonableness, and discussing the data with knowledgeable agency officials. We determined that the data were sufficiently reliable for the purposes of this report. In addition to analyzing HUD data on all CDBG recipients, we visited 20 recipients. As shown in table 5, we visited 17 recipients in six large metropolitan areas as well as 3 smaller recipients outside large metropolitan areas.¹ In selecting the recipients located in large metropolitan areas, we considered geographic dispersion, funding level, need,² and proximity to a HUD field office and state capital. We selected the smaller recipients outside large metropolitan areas based on their population and location. Of the 20 recipients we visited, 4 were states, 2 were urban counties, and 14 were cities. We also visited four

¹We considered a community to be within a metropolitan area if it was within 70 miles of the central city. This meant that some of the communities that we considered to be within a certain metropolitan area, such as Greeley, Colorado, were outside that metropolitan area as defined by the Office of Management and Budget.

²We determined "need" using the needs scores HUD developed for its recent study on the formula used to distribute CDBG funds. See U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *CDBG Formula Targeting to Community Development Need* (Washington, D.C.: February 2005).

nonentitlement communities funded by the states of Georgia and Maryland.³ We interviewed the eight HUD field offices that monitor the grantees we visited and interviewed staff at HUD headquarters.⁴ Finally, we interviewed representatives of four national organizations that represent CDBG recipients—the Council of State Community Development Agencies, the National Association for County Community and Economic Development, the National Association of Housing and Redevelopment Officials, and the National Community Development Association—to obtain their views on the use of CDBG funds and HUD’s oversight of the program.

Table 5: 20 Recipients That GAO Visited

Area	Recipient
Atlanta metropolitan area	Atlanta, Georgia State of Georgia
Baltimore metropolitan area	Baltimore, Maryland Baltimore County, Maryland State of Maryland
Boston metropolitan area	Boston, Massachusetts Attleboro, Massachusetts Commonwealth of Massachusetts
Chicago metropolitan area	Chicago, Illinois Kane County, Illinois Naperville, Illinois
Denver metropolitan area	Denver, Colorado Greeley, Colorado State of Colorado
Los Angeles metropolitan area	Los Angeles, California Gardena, California Santa Monica, California
Other	Beloit, Wisconsin Dubuque, Iowa Warner Robins, Georgia

Source: GAO.

³These nonentitlement communities were Poulan, Georgia; West Point, Georgia; Denton, Maryland; and Caroline County, Maryland.

⁴We interviewed staff in person and collected documentation from the Atlanta, Baltimore, Boston, Chicago, Denver, and Los Angeles field offices. We interviewed staff at the Milwaukee and Omaha field offices via the telephone.

To determine how the communities that receive CDBG funds use those funds, we reviewed CDBG program regulations to determine how recipients are allowed to use their funds. We then analyzed IDIS data on activities funded as of September 30, 2005, to determine (1) the activities most often funded by recipients in fiscal year 2005, (2) any differences between the activities most often funded by entitlement and state recipients in fiscal year 2005, and (3) the percentage of activities funded in fiscal year 2005 that met each of the three national program objectives. For examples of how communities use their funds, we relied on documentation provided by the 20 recipients we visited and pictures we took during our site visits. We had planned to use IDIS data to examine the extent to which CDBG recipients were complying with the statutory spending limits on public services and planning and administration but determined that (1) IDIS did not save some of the data needed to determine compliance by entitlement communities and (2) IDIS data cannot be used to determine states' compliance with the limits. Therefore, we requested data from HUD showing the percentage of funds spent by selected recipients on public services as well as on planning and administration. We initially requested data on the 200 entitlement communities that received the most funding, but HUD could only provide data on the 100 most populous entitlement communities within our time frames. We then analyzed that data to determine how many had exceeded the two spending limits in program year 2004. We also analyzed HUD data to determine the number of recipients eligible for the special exception that allows certain recipients to count activities that benefit fewer than 51 percent low- and moderate-income persons as meeting the low- and moderate-income national objective in fiscal year 2006. To determine the status of HUD's efforts to implement a performance measurement system, we reviewed the notices published in the *Federal Register* and guidance on HUD's Web site as well as interviewed HUD officials.

To identify how HUD monitors communities' use of CDBG funds, we reviewed HUD's monitoring guidance to determine which tools it uses to monitor recipients. To gain an understanding of HUD's formal monitoring, we reviewed documentation on its risk analysis process and interviewed the HUD headquarters officials responsible for setting monitoring policy as well as HUD field staff responsible for performing the monitoring. We analyzed data from HUD's Integrated Performance Reporting System (HIPRS) to determine if the Office of Community Planning and Development (CPD) met its monitoring goal in fiscal year 2005. We interviewed a knowledgeable agency official regarding the data and determined that they were sufficiently reliable for the purposes of this

report. We also analyzed GMP data to determine (1) if HUD's field offices complied with its risk analysis process in fiscal year 2005, (2) the extent to which HUD monitored CDBG recipients in fiscal years 2001 to 2005, and (3) what types of monitoring findings HUD had in fiscal year 2005. To determine the adequacy of HUD's monitoring resources, we reviewed information on CPD staffing and travel budgets. To assess the usefulness of IDIS as a monitoring tool, we reviewed reports on the system and interviewed HUD field staff regarding their experiences with using the system. We also reviewed HUD's plans for reengineering IDIS and discussed them with the responsible HUD official.

To assess the extent to which the recipients we visited have complied with CDBG program regulations, we reviewed 144 project files.⁵ To identify projects for review, we requested that each recipient provide a list of the projects that they had awarded in calendar year 2003. We used the calendar year because recipients' fiscal years vary, and we chose 2003 because we anticipated that projects would be well under way or complete by the time of our review. From the list that each recipient provided, we selected a stratified random sample of 6 to 10 projects; the number of files selected depended on the funding level of the recipient—more files were selected for recipients with larger grants.⁶ If we determined that a project selected for review was terminated after it was awarded, we selected a replacement project. When reviewing the files, we looked for (1) documentation showing that the activity funded met a national objective, (2) a subrecipient agreement that included the information required in the program regulations (if applicable), and (3) evidence that the recipient had monitored the activity.

To determine the extent to which HUD has held recipients that have not complied with CDBG program requirements accountable for their actions, we reviewed the CDBG program regulations to determine what sanctions HUD can take against recipients. We reviewed HUD's policy on timely expenditure of funds and analyzed data on the number of untimely recipients as of April 2006. We also analyzed GMP data to determine the number of sanctions that HUD had taken in fiscal years 2003 to 2005 and the specific types of sanctions it took in fiscal year 2005. In addition, we

⁵We reviewed documentation on 134 projects, of which 4 involved multiple activities or files, for a total of 144 files.

⁶For every recipient we visited, except Warner Robins, Georgia, we reviewed a random sample of files. In Warner Robins, we reviewed all six subrecipient files.

Appendix I
Objectives, Scope, and Methodology

interviewed HUD field and headquarters staff to determine how they decide which sanctions to take against recipients.

We performed our work from July 2005 to July 2006 in accordance with generally accepted government auditing standards.

Selected States' Methods of Distributing Funds

The methods that states use to distribute CDBG funds vary. To demonstrate the variety of methods used, we examined the approach that the following 10 states take when distributing their funds: Georgia, Colorado, Maryland, Massachusetts, North Carolina, New York, Ohio, Pennsylvania, Puerto Rico, and Texas.¹ We selected these states because we visited the first four and the remaining six received the largest funding allocations in federal fiscal year 2005. To determine the method of distribution used, we reviewed each state's fiscal year 2005 action plan.² Table 6 provides information such as how each state allocates its funds among various activities, the evaluation criteria used to select applications, and incentives or application bonuses offered.

¹The Commonwealth of Puerto Rico is a United States Territory, but it is classified as a state for the purposes of the CDBG program.

²While these plans describe how each state planned to distribute its fiscal year 2005 allocation from HUD, they do not cover the same time periods because the states' fiscal years vary.

**Appendix II
Selected States' Methods of Distributing
Funds**

Table 6: Information on How 10 States Distribute Their CDBG Funds

	Colorado	Georgia	Maryland	Massachusetts	New York
FY 2005 allocation	\$12,428,946	\$44,692,413	\$8,944,527	\$38,578,167	\$54,423,586
Program year	April 1 to March 31	July 1 to June 30	July 1 to June 30	April 1 to March 31	January 1 to December 31
Breakdown of allocation	<ul style="list-style-type: none"> • Housing (32.3%) • Business financing (32.3%) • Public facilities and community development (32.3%) • Technical assistance (1%) • State administration (2%) 	<ul style="list-style-type: none"> • Annual competition (77%) • Immediate threat and danger (1%) • Employment incentives (16%)^a • Redevelopment fund (3%) • Technical assistance (1%) • State administration (2%) 	<ul style="list-style-type: none"> • Community development (72%) • Business and economic development (25%) • Technical assistance (1%) • State administration (2%) 	<ul style="list-style-type: none"> • Community development (54%) • Housing development support (12%) • Economic development (6%) • Mini-entitlements (23%)^b • Reserves (2%) • Technical assistance (1%) • State administration (2%) 	<ul style="list-style-type: none"> • Annual competition (60%) • Economic development (35%) • Imminent threat (2%) • Technical assistance (1%) • State administration (2%)
Evaluation criteria ^d	<ul style="list-style-type: none"> • Project impact • Public and private commitments • Management capability 	<ul style="list-style-type: none"> • Demographic need • Program feasibility • Program strategy • Project impact • Leverage of additional resources • Urgent need 	<ul style="list-style-type: none"> • Public purpose • Project impact • Project management • Local commitment • Project feasibility • Sources and use of funds • Readiness to proceed • Past performance 	<ul style="list-style-type: none"> • Financial feasibility • Affordability • Readiness to proceed • Developer capacity • Site and design • Cost effectiveness • Community needs score 	<ul style="list-style-type: none"> • Municipal poverty score • Program impact • Outstanding performance
Application deadline	Applications accepted until all funds are allocated.	Annual competition accepts applications at a set time each year, but all other programs accept applications until all funds are allocated.	Applications accepted at set time each year.	All programs accept applications at set time each year, except economic development, which accepts applications until all funds are allocated.	Annual competition accepts applications at set times each year, but all other programs accept applications on a first-come, first-served basis, until all funds are allocated.

**Appendix II
Selected States' Methods of Distributing
Funds**

North Carolina	Ohio	Pennsylvania	Puerto Rico	Texas
\$50,010,517	\$54,560,938	\$55,485,726	\$53,094,663	\$82,305,507
January 1 to December 31	July 1 to June 30	January 1 to December 31	July to June 30	February 1 to January 31
<ul style="list-style-type: none"> • Community revitalization (31%) • Scattered site housing (29%) • Infrastructure (11%) • Housing development (4%) • Economic development (20%) • Urgent needs (2%) • Technical assistance (1%) • State administration (2%) 	<ul style="list-style-type: none"> • Community housing improvement (15.6%) • Homeless assistance (1%) • Formula allocation (42.5%) • Water and sewer (19.2%) • Economic development (12.3%) • Downtown revitalization (4.6%) • Discretionary grant (1%) • Micro enterprise business development (0.4%) • New horizon (0.2%) • Technical assistance (1%) • State administration (2.2%) 	<ul style="list-style-type: none"> • Annual competition (13%) • Cities (24%) • Towns (38%) • Counties (38%) • State administration (2%) 	<ul style="list-style-type: none"> • Basic grant (34%) • Competitive fund (61%) • Emergency grant (2%) • Technical assistance (1%) • State administration (2%) 	<ul style="list-style-type: none"> • Community development (61%) • Texas capital (15%) • Colonia (13%)^e • Planning and capacity building (1%) • Disaster relief fund (4%) • Texas community development program—small towns environment program (3%) • Technical assistance (1%) • State administration (2.2%)
<ul style="list-style-type: none"> • Severity of needs • Local commitment • Feasibility • Rotation^e • Capacity • Market demand • Job creation 	<ul style="list-style-type: none"> • Community distress • Administrative capacity • Past performance • Program design and impact • Cost effectiveness • Leverage and coordination 	<ul style="list-style-type: none"> • Magnitude and severity of need • Third party support • Impact of problem on residents in affected area 	<ul style="list-style-type: none"> • Basic grant distributes funds evenly among 51 nonentitlement communities • Competitive fund distributes funds based on past performance, project impact, feasibility, and number of beneficiaries • Emergency grant distributes funds on a case-by-case basis 	<ul style="list-style-type: none"> • Project impact • Community needs • Feasibility • Leverage ratio • Management capacity • Past performance
Community revitalization and scattered site housing accept applications at set times. All other programs accept applications until all funds are allocated. ^f	All programs accept applications at a set time each year, except for Economic development, Discretionary grant and New horizon, which accept applications until all funds are allocated.	All programs accept applications at a set time each year, except Annual competition, which accepts applications until all funds are allocated.	Basic grant and competitive fund accept applications at a set time period each year. Emergency grant accept applications when an urgent need occurs.	All programs accept applications at a set time each year or when a natural disaster occurs.

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Selected States' Methods of Distributing
Funds**

(Continued From Previous Page)

	Colorado	Georgia	Maryland	Massachusetts	New York
Incentives or application bonuses offered	None	Available for certain applicants proposing projects in revitalization areas.	None	No incentives, but all communities have a community wide needs score that can help their chances of receiving an award.	None
Matching requirement	None	Annual competition grantees must match 5 percent of awards ranging from \$300,001 to \$500,000 and 10 percent for awards over \$500,000.	None	None	Economic development requires applicants to match at least 60 percent of total project costs for which CDBG funds are being requested.

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Selected States' Methods of Distributing
Funds**

North Carolina	Ohio	Pennsylvania	Puerto Rico	Texas
Economic development offers additional funding for jobs created in state designated communities.	Economic development considers applicants to be more competitive in the selection process if they create jobs for low- and moderate-income individuals.	None	None	None
Economic development requires most grantees to match at least 25 percent of awards received.	Economic development requires applicants to leverage funds from other sources. All other programs do not require a match, but it can make applicants more competitive in the selection process.	None	None	Disaster relief applicants must match awards based on population size; the larger the population, the larger the match required. All other programs require a match to be competitive in the selection process.

Source: GAO analysis of state data.

^aThe Employment Incentive Program awards grants to nonentitlement communities to offer loans to private-for-profit entities that create and/or retain jobs for persons who are low- and moderate-income.

^bThe Mini Entitlement Program awards grants to nonentitlement communities based on multiple parameters that other grantees are not required to meet, including population, percentage of low- and moderate-income persons, age of housing stocks, and population density.

^cColonia refers to any unincorporated community with poor water and sewage systems and housing. Texas' allocation for colonia includes the Colonia Fund and Non-Border Colonia fund, which have geographic differences but address similar community needs.

^dEvaluation criteria listed are a summary of the various criteria that the states use to evaluate applications for their programs.

^eRotation refers to county governments that receive scattered site housing grants on a revolving basis to address housing needs of very low income families in the county.

^fThe Housing development program has two components—one accepts applications at a set time each year and the other accepts applications until all funds are allocated.

Activities Funded by the Recipients That GAO Visited

During our review of the CDBG program, we visited 16 entitlement communities and four states. Additionally, we visited four nonentitlement communities funded by two of the states we visited (Georgia and Maryland). These recipients funded the following examples of public improvement, housing, public service, economic development, and acquisition activities.

Public Improvements

West Point, Georgia (a nonentitlement community) used \$500,000 in CDBG funds awarded by the state of Georgia to build a new Boys and Girls Club (see fig. 8). According to the city's application for funds, the old Boys and Girls Club did not have an accessible entry, had several leaks in the roof that could only be temporarily repaired, did not have load bearing walls, and had a mechanical system that appeared to be well beyond its reasonable life expectancy. The total budget for the project was \$721,500, including operating costs. According to the application, the club plans on serving 200 children, 180 of which are from low- and moderate-income families.

Figure 8: Boys and Girls Club in West Point, Georgia



Source: GAO.

Former location of Boys and Girls Club (left). New location and building for Boys and Girls Club (right).

- Poulan, Georgia (a nonentitlement community) utilized a \$499,081 grant from the state of Georgia to replace a portion of the city's corroding water pipes. At the time of the grant, the corroding water pipes

restricted the amount of water that flowed through the water lines and caused the water to become discolored and rusty. According to local officials, the water that was fed through these water lines was not suitable for drinking, bathing, or cleaning clothes. In addition to the money provided by the state, the city of Poulan provided \$40,000. Over 70 percent of residents that benefited from the new water lines had low- and moderate-incomes.

- The state of Maryland awarded the town of Denton (a nonentitlement community) \$600,000 to make improvements to city streets. Specifically, the funding was used to install a new storm water management system, curbs, gutters, sidewalks, and paving. The CDBG grant provided \$431,913 for construction, \$148,087 for project administration and contingency, and \$20,000 for general administration. The project was matched with a \$566,950 loan and a \$4,920 grant from the U.S. Department of Agriculture and \$7,841 from the town of Denton.
- Attleboro, Massachusetts used \$222,267 in CDBG funds to finance, in part, the reconstruction of the Fred E. Briggs Playground municipal pool and bathhouse, which is located in a census tract where 59 percent of the households are of low- and moderate-income. The city demolished the old pool, the bathhouse, the building that housed the filtration system, the walkways, and the fencing and constructed a brand new municipal pool and bathhouse facility (see fig. 9). The capital project was necessary to bring both the pool and bathhouse into compliance with federal, state and local building and health codes and to provide accessibility for persons with disabilities. The total project cost was \$537,849.

Figure 9: Renovated Briggs Playground Pool in Attleboro, Massachusetts



Source: GAO.

- Kane County, Illinois used \$28,592 in CDBG funds to finance the rehabilitation of the Corron Farm Park (see fig. 10), located in and owned by Campton Township. The structure was listed in the Kane County Register of Historic Places and was vacant and badly deteriorated when rehabilitation work began. The building will house a local history museum upon completion. Additionally, local officials told us that the investment of CDBG funds helped reinforce local efforts to protect open space in an area facing rapid growth and development. The overall funding for the project was \$64,936, with Campton Township investing \$36,344 in the project.

**Appendix III
Activities Funded by the Recipients That
GAO Visited**

Figure 10: Corron Farm Park in Kane County, Illinois



Source: Kane County, Illinois.

Housing

Greeley, Colorado spent \$236,000 in 2003 CDBG funds to continue its single-family housing rehabilitation program and provide emergency assistance to the elderly and persons with disabilities. Efforts were concentrated in areas targeted for urban renewal. Activities included in the housing rehabilitation were housing rehabilitation and weatherization, housing replacement, property acquisition, ramps for persons with disabilities and elderly, first-time home buyer's program, and urban renewal (see fig. 11).

Figure 11: Single Family Housing Rehabilitation in Greeley, Colorado



Source: GAO.

- In 2003, Atlanta, Georgia provided \$350,000 in CDBG funds to Southeast Energy Assistance (SEA) for energy-related repairs to 225 homes owned by low-income residents. These repairs eliminate air leaks to make homes more energy efficient and reduce heating and cooling costs. SEA is a nonprofit organization that is a service provider for the federally funded Weatherization Assistance Program (WAP). WAP services include adding insulation to floors, walls, and attics; replacing or repairing damaged exterior doors and windows; and installing weatherstripping and caulking.
- In fiscal year 2003, the Commonwealth of Massachusetts awarded \$1,118,125 in funding to the town of Oak Bluffs to rehabilitate 40 units of substandard housing in the towns of Oak Bluffs, Aquinnah, Chilmark, Edgartown, Tisbury, and West Tisbury. Low- and moderate-income persons residing in substandard housing were eligible to participate. Upon completion of the grant, a total of 47 units had been rehabilitated. The project utilized three loan options: a deferred payment loan, a deferral agreement loan, and a direct reduction loan. Ten loans were

issued at or under \$30,000, 23 loans were issued at or under \$25,000, and 14 loans were issued at or under \$20,000.

- Chicago, Illinois provided \$5.9 million in CDBG funds to build Wentworth Commons. Wentworth Commons provides affordable housing to families and individuals that were formerly homeless or at risk of homelessness. To qualify to live at Wentworth, applicants must make 60 percent or less of the area median income. Overall, there are 51 units at the site: 24 efficiency apartments, 15 three-bedroom apartments, 9 two-bedroom apartments, and 3 four-bedroom apartments. The site also features supportive services such as case management, employment training, and leadership development. The building is environmentally friendly and energy efficient. It uses solar energy to generate electricity into the building's electrical distribution system, which offsets electrical use. The total cost of the project was \$13 million.
- Los Angeles, California runs a "Handyworker" Program that provides minor home repair services to low-income senior citizens or homeowners with disabilities. The program helps keep housing from deteriorating by funding repairs that homeowners could not otherwise afford. In program year 2004, the city budgeted \$2,000,000 in CDBG funds for the program. Grants of up to \$5,000 per client were available for repairs or home improvements that address home safety, accessibility, and security issues. Improvements include exterior and interior painting, minor finish work, the installation of disability grab bars and accessibility ramps, minor plumbing, and other repairs. Through this program, the city is working to preserve the existing stock of affordable housing. The city's goal for program year 2004 was to provide 1,552 households "Handyworker" services.
- Caroline County, Maryland (a nonentitlement community) began receiving state of Maryland CDBG funds in 2002 to rehabilitate housing for low- and moderate-income households. Since 2002, the county has received \$575,000 in CDBG funds to rehabilitate 51 homes. Additionally, the county also received \$17,250 in CDBG funds in 2003 to complete a housing study. The county told us that the CDBG funds have also helped the county leverage \$10,250 from the U.S. Department of Agriculture for housing rehabilitation.
- Baltimore County, Maryland conducts a Single Family Rehabilitation and Emergency Repair Program. Since the inception of the program, the

county has assisted nearly 1,850 income eligible households. In fiscal year 2005, the county spent \$1 million in CDBG funds to assist 93 households. The program provides loans of up to \$25,000 per home. The loans are then deferred until the sale, refinance, or transfer of property. During ownership, the county allows homeowners to make certain repairs and home improvements.

Public Services

Naperville, Illinois provided \$19,223 in program year 2005 funding for the Loaves and Fishes Community Food Pantry (see fig. 12). The food pantry provides groceries that ensure a healthy diet to Naperville's low-income and homeless clients. According to Loaves and Fishes, 3,000 Naperville residents live in poverty. On a weekly basis, the food pantry provides 250 families with the equivalent of three bags of groceries to last for a 2-week period. In 2005, the food pantry provided: services to over 1,500 families, home delivery to over 100 seniors and individuals with disabilities, and over 1,800 holiday food distributions.

Figure 12: Loaves and Fishes Community Food Pantry in Naperville, Illinois



Source: GAO.

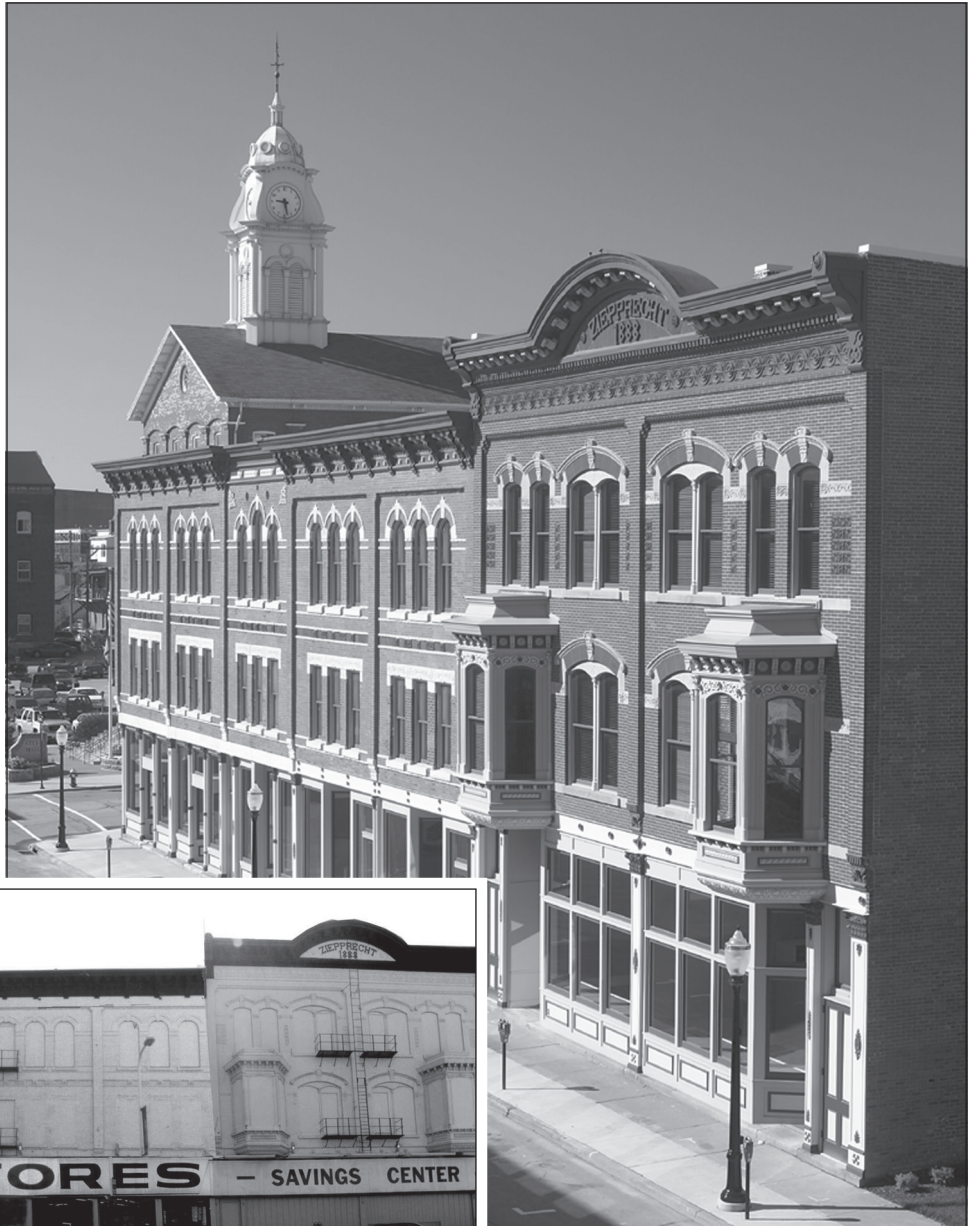
- Denver, Colorado provided \$50,000 in 2003 funding to Brothers Redevelopment Incorporated to provide the salaries and benefits for a director and two part time counselors. The director and part time counselors provided information, referrals and mortgage counseling for low- and moderate-income households in the Denver community.
- Santa Monica, California provided \$242,442 in program year 2005 CDBG funding toward the SAMOSHEL homeless shelter. SAMOSHEL provides 110 shelter beds to homeless adults, and expects to serve up to 500 persons annually with their emergency shelter. Additionally, the shelter provides services such as access to medical and mental health services, permanent and transitional housing programs, domestic violence intervention, counseling and case management, and substance abuse recovery support and employment services.
- In fiscal year 2003, Warner Robins, Georgia provided \$41,000 in CDBG funds to the Gateway Cottage. The Gateway Cottage program targets young homeless mothers recovering from substance abuse. The cottage provides housing and resources for a time span of 1 year while providing training in hygiene, personal finance, substance abuse, parenting, and daily living skills. The program networks with other service providers to link clients with job training, educational opportunities, and physical and mental health services. Upon graduation from the program, clients are eligible to apply for the aftercare component of the program, which is supportive housing in conjunction with supportive services.
- Beloit, Wisconsin provided \$7,068 for the Beloit Chore Service Program in 2005. The program provides senior citizens with screened, qualified workers who will do home maintenance and repairs at affordable prices. The program staff screen workers and verify that they are qualified to perform the repair and maintenance work. The workers provide inexpensive home repairs, which allow seniors to remain independent and in their own homes.
- Baltimore, Maryland provided \$80,700 in 2003 CDBG funds to the Belair-Edison Neighborhoods Incorporated. The funds were used to undertake several activities including repurchasing, default and delinquency counseling, fair housing counseling and education, homeownership workshops, and public information and technical assistance to businesses in the Belair-Edison area of Baltimore.

Economic Development

- In fiscal year 2005, Boston, Massachusetts designated \$856,697 in CDBG funds for its Boston Main Streets program. The city of Boston provided funding and technical assistance to 19 neighborhood-based Main Streets districts throughout the city. The program helps the local districts capitalize on their unique cultural and historical assets while focusing on the community's economic development needs. Examples of activities funded under the program include small business recruitment, business retention, and addressing competition from shopping malls and discount retailers. From 1995 to December 2005, the city created 540 new businesses and 3,643 new jobs, and leveraged \$9,645,644 in additional private investment through the program.
- Dubuque, Iowa provided a \$500,000 CDBG loan to Heartland Financial in April 2003 as an incentive to select a downtown location for the company's expansion of 47 new jobs (see fig. 13). The \$4.5 million project provided for the renovation of two downtown buildings both of which are on the National Register of Historic Places. In addition, it provided for reuse of the vacant buildings, retained a workforce in the downtown, and created new jobs for low- and moderate-income persons.

**Appendix III
Activities Funded by the Recipients That
GAO Visited**

Figure 13: Heartland Financial Building in Dubuque, Iowa



Source: City of Dubuque, Iowa.

- As of the 2003/2004 fiscal year, the city of Gardena, California had expended \$490,755 in CDBG funds revitalizing their Van Ness Corridor. The goal of the revitalization was to strengthen the economic vitality of the city, provide employment opportunities, stimulate quality retail development, and create a sustainable economic base for the city. The city provided funds to businesses along the corridor to eliminate slum and blight. CDBG assistance has included financial assistance for facade and exterior improvements, providing block wall and infrastructure improvements along the corridor, conducting a business survey to develop and implement a business outreach program, and providing an on-going graffiti abatement and removal program.

Acquisition

- The state of Colorado provided \$250,000 in CDBG funds to help a health clinic in Lafayette, Colorado acquire property to build a new facility. Clinica Campesina is a community health center serving the needs of the low-income, uninsured residents of Southeastern Boulder, Broomfield, and Western Adams Counties. Ninety-six percent of the patients that the clinic serves are at or below 200 percent of the federal poverty line. The clinic's patients are predominately children under the age of 13 (38 percent) and women of childbearing age (28 percent). The total project budget was \$1.3 million.

Comments from the Department of Housing and Urban Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix. (Page references in this letter may differ.)



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

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

MUL 11 2006

Mr. Paul Schmidt
Assistant Director of Financial Markets
and Community Investment
U.S. Government Accounting Office
Washington, DC 20548

Dear Mr. Schmidt:

Thank you for the opportunity to provide comments on the government Accountability Office (GAO) draft report: COMMUNITY DEVELOPMENT BLOCK GRANTS: Program Offers Recipients Flexibility but Oversight Can Be Improved (GAO-06-732). Below are specific comments that we have on the draft report. They are in addition to comments previously provided and discussed with you.

See comment 1.

Highlights page, last line of 1st paragraph: That grantees spend at or close to the planning/admin and public service caps is less of an issue for *reporting* than it is for *monitoring compliance* with the requirements. Recommend revising this sentence to make this point.

See comment 2.

Highlights page, 2nd paragraph; page 4, 18th and 19th lines; page 23, 1st paragraph; page 29, last paragraph, 1st sentence; page 30, second and third full sentences; page 39, 2nd bullet under recommendations: HUD/CPD recently developed a staffing/hiring plan to help ensure the proper mix of skills and abilities for the present as in the future. The plan, which is a living document, currently provides for the filling of 169 critical positions. The Deputy Secretary approved it on June 5, 2006. A copy is enclosed for your information.

See comment 3.

Highlights page, 3rd paragraph; page 33, 1st full paragraph; page 35, 2nd sentence in 2nd paragraph; page 36, 1st full paragraph, 4th sentence: HUD issued guidance in the past on actions to take if a grantee was not in compliance with program requirements. Specifically, CPD issued Handbook 6513.01 "Community Development Block Grant Program: Entitlement Grant Management," in September 1992. An entire chapter in this Handbook was devoted to managing performance deficiencies (Chapter 8). CPD Grants Management Policy Notebook (first issued in FY 1997 and revised in 1998) replaced some, but not all, of the provisions of this Handbook.

See comment 4.

Highlights page, 3rd paragraph, 2nd to last sentence; page 33, center paragraph; page 35, last paragraph on the page; page 37, paragraph above "Conclusions": That Field Offices took different actions to address infractions may be perfectly acceptable if the cause(s) differed. Furthermore, it is unrealistic to describe "the conditions under which each type of sanction should be taken" given that the program has 26 eligible activities

and 3 national objectives which are carried out by 1,128 entitlements and 50 states, the common wealth of Puerto Rico and Insular Areas in myriad combinations to meet locally defined needs. Field Office actions are guided both by the regulatory language of 24 CFR 570.910(a) which outlines the parameters within which corrective actions should be crafted, as well as by OIG standards for resolving deficiencies (which are included in the *CPD Monitoring Handbook* at Chapter 2, section 2-8.B. The guidance in Chapter 8 of the Handbook referenced above is also available to guide Field Office decisions on corrective actions. It is comparatively much simpler to provide guidance for timeliness, given the nature of the standard itself.

See comment 5.

Page 10, first full paragraph: The sentence that reads, “In addition to monitoring CDBG, CPD field staff oversee the HOME, ESG, and HOPWA programs as well as a number of smaller competitive programs” should be revised as follows: “CPD Field Offices are responsible for a broad range of grant management activities that include annual review and approval of Entitlement grantee action plans, preparation and execution of grant agreements, review of Entitlement grantee annual performance reports, managing homeless program competition to include: review of over 4,500 applications; preparing conditional award letters; review and approval of technical submission for conditionally approved grants; set-up of budgets for each grant in Line of Credit Control System; execution of grant agreements and grant closeout activities, provision of technical assistance to Entitlement and Competitive grantees, and recapturing unobligated/unexpended grant funds, as well as monitoring activities.”

See comment 6.

Page 10, last line of 1st full paragraph: Technically, the CPD Monitoring Handbook contains more than 29 Exhibits for monitoring CDBG recipients. There are several other separate Chapters that contain Exhibits for other requirements applicable to the CDBG program, such as fair housing and equal opportunity, lead hazards, labor, relocation, etc.

See comment 7.

Page 23, last sentence in the first paragraph, 2nd half of Page 31, last paragraph, page 38: HUD believes that more field input has already been received and has been used to influence the design of the IDIS revised version than HUD is credited for in the report. The reengineered system will retain the same functionality as the existing system, but will include improvements to make data entry easier for grantees, to use an Internet framework for flexibility, and to increase report capability both for the grantees and the field. In addition, headquarters staff obtains user input via regular monthly conference calls with CPD field staff to discuss current operational issues with IDIS and the changes that are occurring in IDIS, through biweekly conference calls with the Field Office CPD Directors, as well as through Performance Measurement training in 5 regional locations in 2005 on IDIS and at 15 field sites across the country in 2006.

In addition, Field Office staff will be consulted when the re-engineering project gets to the point of specifying reports that need to be added to the system to assist them to do their work. An FRD (functional requirements document) has been developed which makes clear that additional report functionality must be added to IDIS. The Field Offices will be responsible for specifying what types of reports would most help them do their work. When we get to that point in the re-engineering work, they will be consulted.

Appendix IV
Comments from the Department of Housing
and Urban Development

See comment 8.

Page 26, 1st paragraph, last sentence: The report states, “However, despite not monitoring 16 high-risk recipients, 8 of the 12 responsible Field Offices monitored recipients that they did not consider high-risk.” Departmental policy permits monitoring of medium- and low-risk grantees and, in fact, explicitly acknowledges that monitoring low-risk entities serves a useful and valid program purpose (see Handbook 1840.1 Rev-3, *Departmental Management Control Program*, section 7-6.B). In fiscal year 2005, as noted in the GAO report, HUD Field Offices designated 164 of 1,128 CDBG recipients as high-risk. Therefore, 964 CDBG recipients were designated as moderate or low-risk. From a risk management perspective, some portion of this universe of 85% of CDBG recipients should be subject to monitoring. The report should reflect this.

See comment 9.

Page 27, 1st paragraph under footnotes: Monitoring recipients is NOT critical simply because it results in findings. It is critical to fulfill statutory and regulatory responsibilities to assess compliance as well as to carry out our stewardship responsibilities.

See comment 10.

Page 27, 5th sentence: Add “by recipient” after “...showed no evidence of monitoring.

See comment 11.

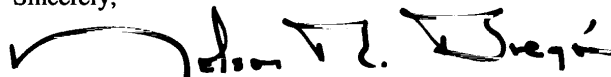
Page 38, 1st sentence of 1st full paragraph: We do not agree that HUD should ensure the proper use of funds just because program funding is “being cut as the number of grant recipients increases.” We monitor because that is our stewardship responsibility.

See comment 12.

Page 39, paragraph at the top of the page: It is comparatively much simpler to develop policies and procedures to address timeliness deficiencies, given the nature of the standard itself.

We hope the above comments will be helpful in finalizing the draft report, and assist your study’s efforts analyzing CDBG’s flexibility and oversight activities. If you have any questions regarding our comments, please contact Richard Kennedy, Director, Office of Block Grant Assistance, at 202-708-3587, extension 4542.

Sincerely,



Nelson R. Bregón
General Deputy Assistant Secretary

Enclosure

The following are GAO's comments on the Department of Housing and Urban Development's letter dated July 11, 2006.

GAO Comments

1. We agree that it is important to monitor compliance with administration and planning and public service spending caps. However, our report emphasizes HUD's need to centrally maintain data on compliance with statutory spending limits so that it can report on the extent of compliance; therefore, we made no change to the report in response to this comment.
2. The CPD staffing/hiring plan was approved in June 2006 and was provided to us along with HUD's written agency comments. Because the plan was provided at the close of this engagement this report does not evaluate the extent to which the plan addresses identified workforce needs.
3. The guidance that HUD references was issued in the 1990s. When we interviewed the Director of CPD's Office of Field Management and field office staff regarding the monitoring of CDBG recipients, they stated that they were following the new *CPD Monitoring Handbook*, which was issued in September 2005. The introduction to this handbook states that it establishes standards and provides guidance for monitoring CPD programs, including CDBG. Beyond referring field staff to various sections of the program regulations, the new handbook does not describe what conditions its field staff should consider when taking corrective actions and what specific conditions warrant different types of corrective actions. Because we believe that HUD needs a consistent framework for holding CDBG recipients accountable for deficiencies identified during monitoring, we made no change to the report.
4. Our report acknowledges that any additional guidance that HUD develops for its field staff taking sanctions could allow for the consideration of individual situations. Because individual situations may vary, we stated that such guidance could establish a framework, or parameters, within which field offices should operate. Although HUD points to several forms of guidance in its comment, none of them specifically addresses the concerns raised in this report. The regulatory language in 24 C.F.R. 570.910(a) states that corrective actions should be designed to (1) prevent a continuation of the performance deficiency; (2) mitigate, to the extent possible, the adverse effects or consequences of the deficiency; and (3) prevent a recurrence of the deficiency. While

this language establishes the purpose of taking sanctions, it does not provide parameters that help field staff determine which specific corrective sanction is appropriate to address the deficiency identified. Section 2-8.B. of the *CPD Monitoring Handbook* describes HUD's basis for determining whether a deficiency should result in a finding or concern, but it does not help field office staff determine which sanction may be appropriate if the deficiency results in a finding. Finally, as we mentioned in our response to the previous comment, the additional handbook HUD referenced was issued in 1992, while the *CPD Monitoring Handbook* was issued in 2005. Given the great flexibility that exists when taking sanctions, we believe it would be useful to provide field office staff further guidance to ensure they are treating recipients that commit similar infractions equitably.

5. We revised the report to include the suggested text.
6. We revised the text to make it clear that the 29 exhibits we mention are in the two handbook chapters that are specific to the CDBG program.
7. We agree that the meetings referenced by HUD can be helpful in sharing information on current operational issues with IDIS. However, the meetings that HUD has referenced are either regularly scheduled management meetings or training on HUD's new performance measurement system. None of these meetings are the field office sessions that are specifically mentioned in the statement of work for the reengineered IDIS system. When we asked about the status of sessions that the statement of work said would be held with field staff regarding user requirements, accomplishment reporting, and proposed navigation approaches, the HUD official that is overseeing development of the new system stated that these sessions would not be held until late summer 2006 at the earliest, although a functional requirements document had already been drafted. Further, additional statements made by that official and HUD's written comments indicate that the focus of future meetings with field staff will only be on reporting requirements. We continue to believe that soliciting input from end users on system requirements is consistent with best practices for system development and recommend that field office staff should participate in project management throughout the system's life cycle to ensure that the completed system supports both HUD's business needs and the end user field office needs.

8. We agree that monitoring low- or medium-risk grantees can serve a useful and valid program purpose, especially considering the large number of grantees designated as such. The report acknowledges that HUD policy permits the monitoring of medium- and low-risk recipients by noting that they can be reviewed using remote, or off-site, monitoring. Therefore, we made no change to the report.
9. We agree that monitoring recipients is critical to fulfill statutory and regulatory responsibilities to assess compliance as well as carry out stewardship responsibilities. In our report, we are providing one reason why monitoring is critical, not an all-inclusive list, so we did not change the report.
10. We revised the text as suggested.
11. We agree that grant monitoring is a critical stewardship responsibility. This section of our report is highlighting the fact that program funding cuts are being made at the same time as the number of grant recipients is increasing, which creates challenges as HUD carries out its stewardship responsibilities.
12. We agree that it is easier to develop policies and procedures to address timeliness deficiencies than it is to develop guidance that addresses the myriad of deficiencies identified during monitoring. However, given the importance of holding CDBG recipients accountable for how they use their funds, we recommend that HUD consider issuing additional guidance for field staff that establishes the parameters within which field offices should operate and provides greater transparency to the sanctioning process.

GAO Contact and Staff Acknowledgments

GAO Contact

William Shear, (202) 512-8678

Staff Acknowledgments

In addition, Paul Schmidt, Assistant Director; Nima Patel Edwards; Cynthia Grant; Curtis Groves; Alison Martin; John McGrail; Marc Molino; David Noguera; David Pittman; Nitin Rao; and Paige Smith made key contributions to this report.

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