

## DOCUMENT RESUME

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Report to Secretary, Department of Housing and Urban Development; by Henry Eschwege, Director, Community and Economic Development Div.

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Under the Department of Housing and Urban Development's (HUD's) Community Development Block Grant program, nonmetropolitan communities receive discretionary grants in accordance with an application rating and approval procedure. Two primary rating factors are: (1) the extent that the project supports the expansion or conservation of low- and moderate-income housing, and (2) the extent that the project is designed to benefit low- and moderate-income families. Findings/Conclusions: HUD's review of applications by two area offices in Ohio and Kentucky was not totally adequate, and as a result, funds were given to some communities which did not have the most promising programs. If 31 of 67 grant applications reviewed by GAO had been adequately reviewed and rated by HUD, some approved applications would not have been funded and some disapproved applications would have been funded. Reviewers sometimes reached conclusions about project benefits which were not consistent with information in the application or without adequately resolving conflicting statements in the application. Communities sometimes overstated benefits, and officials often failed to identify overstated claims. The shortcomings in the rating system could be perpetuated in the new Small Cities Program unless HUD includes in its implementing instructions requirements for validation and documentation of project benefits. Recommendations: HUD should include in its implementing procedures to area offices criteria for determining when site visits would be required to validate estimated project benefit claims and should establish a minimum number of communities that should be visited annually. The validation

procedures should include: discussing economic and community development needs with local officials to determine if needs are consistent with application claims, examining community records to determine how the projects fit in with development plans, touring the general project area to determine consistency with application descriptions, analyzing the reasonableness of community claims about project effects, and providing sufficient documentation and identifying the source and basis for the findings. (ETW)

7492

REPORT BY THE U.S.

# General Accounting Office

## The Community Development Block Grant Program: Discretionary Grant Funds Not Always Given To The Most Promising Small City Programs

Deficiencies in the Department of Housing and Urban Development processing of applications for nonmetropolitan discretionary block grant funds have caused funds to be given to some communities which did not have the most promising programs, thereby decreasing the effectiveness of these funds. GAO recommends that the Department of Housing and Urban Development strengthen its procedures for processing applications from nonmetropolitan communities.





UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

B-171630

The Honorable  
The Secretary of Housing and  
Urban Development

Dear Mrs. Harris:

This report identifies problems with the processing of nonmetropolitan discretionary grant applications and recommends improvements for the new Small Cities Program which replaced the discretionary program.

This report contains recommendations to you on page 16. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the four Committees mentioned above; your Inspector General and Assistant Secretary for Community Planning and Development; the Director, Office of Management and Budget; the House Committee on Banking, Finance and Urban Affairs; and the Senate Committee on Banking, Housing and Urban Affairs.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege".

Henry Eschwege  
Director

GENERAL ACCOUNTING OFFICE  
REPORT TO THE SECRETARY OF  
HOUSING AND URBAN DEVELOPMENT

THE COMMUNITY DEVELOPMENT  
BLOCK GRANT PROGRAM:  
DISCRETIONARY GRANT FUNDS  
NOT ALWAYS GIVEN TO THE MOST  
PROMISING SMALL CITY PROGRAMS

D I G E S T

The Housing and Community Development Act of 1974 replaced several Department of Housing and Urban Development programs with the Community Development Block Grant program. Non-metropolitan communities receive discretionary grants under this program in accordance with an application rating and approval procedure established by the Department of Housing and Urban Development. During fiscal year 1977, Housing and Urban Development approved applications totaling \$323 million for nonmetropolitan communities. Because the demand for non-metropolitan discretionary grants is far greater than available funds, it is important that Housing and Urban Development properly review and rate applications so that grants are made available to the most promising projects.

GAO found that Housing and Urban Development's review of applications by two area offices was not totally adequate; it caused funds to be given to some communities which did not have the most promising programs. GAO assessed the information in the applications and the Housing and Urban Development review as it related to its two primary rating factors: (1) the extent that the project supported the expansion or conservation of low- and moderate-income housing and (2) the extent that the project was designed to benefit low- and moderate-income families. (See p. 5.)

GAO reviewed 67 grant applications (34 approved and 33 disapproved) made by Ohio and Kentucky communities. GAO believes that if 31 of these applications had been adequately reviewed and rated, some approved applications would not have been funded and some disapproved applications would have been funded. GAO did not determine which

applications should have been funded if properly rated because it would have been necessary to review all applications; the effort required to do so would have been extensive.

The ratings for the 31 applications were questionable because the reviewers reached conclusions about project benefits which were not consistent with information contained in the application or without adequately resolving conflicting statements in the application. (See p. 5.)

GAO visited eight communities which had either conflicting statements in their applications or the benefits claimed in the applications seemed inconsistent with the nature of the projects being proposed. Seven of the communities visited had overstated benefits to low- and moderate-income families and/or had overstated support to expanding or conserving low- and moderate-income housing. Although Housing and Urban Development officials made onsite visits to five of these communities, they failed to identify the overstated project benefit claims in four instances. In one instance where they identified the overstated claims, they made no change in the application's previously computed rating. (See p. 7.)

For example, one community applied for a \$500,000 grant to construct a neighborhood facility and claimed it would benefit only low- and moderate-income families and the elderly. The GAO visit revealed that the facility's primary purpose was for conventions. When conventions were not being held, the facility was to serve as a recreation and meeting place for all residents of the city and the five surrounding counties.

Although Housing and Urban Development personnel had visited this community to review the application, the overstated benefit statements were not identified, and the project was assigned only one point less than the maximum for the two primary rating factors. GAO believes that, had the actual project beneficiaries and the project's relation to housing been identified, the application might not have been funded. (See p. 8.)

The Housing and Community Development Act of 1977 made a variety of changes in the discretionary program for nonmetropolitan communities. The discretionary program was redesignated the "Small Cities Program" and was revised to incorporate both statutory changes and new administrative initiatives. In March 1978 Housing and Urban Development issued regulations for the Small Cities Program, which included a new national rating criteria to be used by all area offices. In June 1978 Housing and Urban Development issued procedures for its field offices to implement and manage the Small Cities Program.

The findings disclosed in the GAO review of the discretionary program may be perpetuated in the new Small Cities Program unless Housing and Urban Development includes in its implementing instructions requirements for validation and documentation of project benefits.

#### CONCLUSIONS AND RECOMMENDATION

GAO believes that validating estimated project benefits through onsite visits is an effective method for determining that only the most promising projects receive discretionary grants. However, additional guidance is needed for validating estimated project benefits.

Although GAO found a lack of adequate documentation for ratings of applications, new Housing and Urban Development regulations on discretionary block grant administration emphasize the need for such documentation. GAO is therefore making no recommendation to Housing and Urban Development at this time on this matter. (See p. 15.)

To assure that the most promising projects are funded under the Small Cities Program, GAO recommends that Housing and Urban Development include in its implementing procedures to area offices criteria for determining when site visits would be required to validate estimated project benefit claims and establish a minimum number of communities that should be visited annually. The validation procedures should include:

- Discussing economic and community development needs with local officials to determine if needs are consistent with application claims.
- Examining community records to determine how the projects fit in with economic and community development plans.
- Touring the general project area to determine if the condition of the area, the location of the project, and the beneficiaries agree with application descriptions.
- Analyzing the reasonableness of community claims about project effects.
- Providing sufficient documentation and identifying the source and basis for the findings. (See p. 16.)

#### AGENCY COMMENTS AND OUR EVALUATION

Housing and Urban Development generally agreed that onsite visits to verify project claims of all approved community projects would give more assurance that funds go to the most promising community programs. Housing and Urban Development, however, stated that present staffing limitations prevented site visits to all communities that will be awarded a grant.

GAO recognizes that Housing and Urban Development does have staffing limitations; visiting all communities to be funded may not be feasible. However, GAO believes that Housing and Urban Development should establish criteria for determining when a site visit would be required and establish a minimum number of communities that should be visited to reasonably assure that funds are going to the most promising community programs.



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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development

## CHAPTER 1

### INTRODUCTION

Title 1 of the Housing and Community Development Act of 1974 (42 U.S.C. 5301) consolidated several Department of Housing and Urban Development (HUD) categorical programs into a single program of community development block grants. The program is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities--principally for persons of low and moderate income.

In general, the funds may be used for activities eligible under previous programs. These activities may include

- acquisition of real property;
- acquisition, construction, or installation of public works, facilities, and site improvements;
- code enforcement;
- clearance, demolition, removal, and rehabilitation of buildings; and
- provision of public services.

The 1974 Act provided block grants to eligible recipients by way of either entitlement block grants or discretionary block grants. Cities of over 50,000 and certain urban counties are eligible to apply for formula-based entitlement block grants. The factors for allocating these grants included population, housing overcrowding, and the extent of poverty counted twice.

Two types of jurisdictions are eligible to apply for annual discretionary grants under the provisions of the 1974 Act--small communities in metropolitan areas and communities in nonmetropolitan areas. Grants to smaller communities in metropolitan areas are made from the remaining 80-percent metropolitan share of the total appropriation after annual entitlement grants are made to larger cities and urban counties. Grants to communities in nonmetropolitan areas are made from a 20-percent nonmetropolitan share of the total appropriation.

The discretionary programs were to meet the special community development needs not met through the formula entitlement portion of the legislation. These funds are

awarded at the discretion of HUD after consideration of applicant claims.

Our review focused on HUD implementation of the nonmetropolitan discretionary grant program.

HUD allocates nonmetropolitan discretionary funds for each State, using national statistics that account for population, poverty, and overcrowded housing. The demand for nonmetropolitan discretionary grants is far greater than available funds. During fiscal year 1977 HUD received 4,684 preapplications requesting about \$1.4 billion. By fiscal year 1980 about \$1 billion will be available for discretionary grants.

The following table shows the amount of nonmetropolitan discretionary grants approved by HUD through fiscal year 1977.

<u>Fiscal year</u>	<u>Nonmetropolitan discretionary grants</u>
	(000 omitted)
1975	\$199,694
1976	254,003
1977	<u>323,000</u>
Total	<u>\$776,697</u>

The application for discretionary funds is the same as for entitlement funds, and the range of eligible activities is identical. Because the program is competitive and the amount of funds available is limited, each community competes for a grant by filing a preliminary application. This application includes

- a summary of the needs and objectives to be met by the project,
- a project description and cost estimate,
- a map identifying the project location and the concentration of low and moderate-income families, and

--appropriate information needed to meet the rating criteria. (See app. I for a description of HUD rating criteria.)

HUD reviews and ranks the applications. Communities that win the preliminary competition are normally awarded grants but still must file a final application. The final application provides HUD with additional information and elaborates on the data presented in the preliminary application. The term "application" will be used in our report instead of "preliminary application."

The Community Development Block Grant Program was enacted in 1974 with a 3-year authorization. The Housing and Community Development Act of 1977 authorized funds for another 3 years and made a variety of changes in the program. The discretionary programs were redesignated the "Small Cities Program" and were revised to incorporate both statutory changes and new administrative initiatives. HUD is to allocate discretionary balances for metropolitan and nonmetropolitan areas by States. Under a new provision, allocations will be determined by calculating the amounts that would be received under two formulas, then selecting the higher amount. The two formulas are: the present formula (population, extent of poverty (counted twice) and extent of housing overcrowding) and a second formula (age of housing (counted 2-1/2 times), extent of poverty (counted 1-1/2 times), and population (counted once).

Two types of programs--comprehensive and single purpose--are available to small cities. Comprehensive grants involve multiyear commitments (for periods up to 3 years) to carry out two or more activities that address a substantial portion of community development needs within a concentrated area and have a beneficial effect within a reasonable period of time. Single-purpose grants are for one or more projects that consist of one or a set of activities to meet a specific community development need.

HUD area offices administer daily program operations and approve discretionary grants. HUD regional offices oversee and evaluate area office program administration. HUD headquarters directs the overall program and develops policy, guidelines, and instructions. During the first 3 years, HUD headquarters developed overall guidelines and criteria for awarding discretionary grants to the competing communities and permitted its regional offices to use that criteria to establish their own rating system. Under the Small Cities Program, however, HUD headquarters established a national

rating system to be used by all area offices in rating fiscal year 1978 discretionary grant applications.

Although our review concentrated on the nonmetropolitan discretionary grant program, which was replaced by the Small Cities Program, many of the problems we identified can be expected to continue under the new program if appropriate corrections are not made. Our recommendations take this into consideration.

#### SCOPE OF REVIEW

Our review was made at HUD headquarters in Washington, D.C.; its regional offices in Chicago (Illinois) and Atlanta (Georgia); and its area offices in Columbus (Ohio) and Louisville (Kentucky). We examined policies, procedures, records, reports, and project applications pertaining to HUD nonmetropolitan community development discretionary block grants.

We concentrated our review on 67 preapplications (34 accepted and 33 rejected) of the 244 preapplications accepted by HUD in Ohio and Kentucky during fiscal year 1977. These 67 preapplications were selected because they had ratings which appeared inconsistent with either the nature of the project or the ratings of similar projects. We assessed the information in these preapplications and the HUD review as it related to two primary rating factors--(1) the extent that the project supported the expansion or conservation of low- and moderate-income housing and (2) the extent that the project was designed either exclusively, principally, or incidentally to benefit low- or moderate-income families. These factors accounted for 60 percent of the total allowable points per application.

We also visited seven Ohio communities--Andover, Chillicothe, Coshocton County, East Liverpool, Marion, Sardinia, and Wilmington--and seven Kentucky communities--Bowling Green, Campbellsville, Carlisle, Horse Cave, Mount Vernon, Morehead, and Rockcastle County. At the communities we talked to project management officials about their applications, examined records for project histories and status, and toured project sites to ascertain their condition, location, and nature of the beneficiaries.

## CHAPTER 2

### IMPROVEMENTS ARE NEEDED IN REVIEWING AND

#### APPROVING NONMETROPOLITAN DISCRETIONARY BLOCK GRANTS

Deficiencies in HUD's review and approval of applications from nonmetropolitan communities for discretionary block grant funds by two area offices have resulted in funds being given to some communities which did not have the most promising programs. HUD reviewers drew conclusions about estimated project benefits which were not consistent with information contained in the application, and, in other cases, they did not resolve conflicting statements about estimated project benefits.

Our review of 67 selected applications (34 approved and 33 disapproved) showed that 31--46 percent--of the ratings were questionable. Had these applications been properly reviewed and rated, we believe some approved applications would not have been funded and some disapproved applications would have been funded. We did not determine which applications should have been funded if properly rated because this would have required our review and reranking of all 244 applications; the effort required to do so would have been extensive. This task would have been further complicated because HUD does not always approve the full grant amount requested by communities.

#### ESTIMATED PROJECT BENEFITS INCONSISTENT WITH APPLICATION INFORMATION

On 23 of the 67 applications we reviewed, HUD reviewers drew conclusions concerning estimated project benefits which were not consistent with information in the application. These findings were also not adequately documented or supported.

We reviewed 67 of the 244 applications accepted by HUD in Ohio and Kentucky during fiscal year 1977. We evaluated HUD findings on the two principal rating factors--(1) the extent the project supports the expansion or conservation of low- or moderate-income housing and (2) the extent the project is designed to benefit low- or moderate-income families. These two rating factors account for 60 percent of the rating.

After the applications are accepted, HUD reviewers develop findings on the rating factors by examining the application and by using information from other sources. HUD reviewers also measure project effect by assigning points

to each rating factor based on the application and other sources and arrive at a total for each application. After the applications are rated and ranked in descending order, HUD funds as many projects as the State allocation of funds allows.

In 23 of the 67 applications, we question HUD findings on the two principal rating factors because they did not agree with application statements and were not adequately explained and supported.

The following cases illustrate why we question HUD conclusions on estimated project benefits.

#### Case one

A community applied for a \$500,000 grant for a multi-purpose project with 10 activities, which included constructing new roads and public facilities, rehabilitation loans, and acquiring condemned property. The Columbus Area Office review found that the program would be carried out in a low- and moderate-income area and, therefore, would exclusively (100 percent) benefit low- and moderate-income people. The method used in arriving at this finding was not shown.

Based on our review of the information in the application we determined that HUD conclusions conflicted with application statements. According to information in the application, about 55 percent of the project costs were for activities which by their nature do not exclusively benefit any particular family income level. For example, one activity was to recondition condemned property for city parking lots and business use. HUD assigned the maximum points for this rating factor. If the projects had been appropriately rated as principally benefiting low- and moderate-income families, the project may not have received a rating high enough to have been funded.

#### Case two

A community applied for a \$271,900 grant for acquiring and developing a county housing site and recreational facilities. The Louisville Area Office review found that 95 to 99 percent of the project would benefit low- and moderate-income families and, therefore, the Louisville Office assigned 34 out of a possible 35 points to this rating factor. The source or support for this finding, however, was not shown.

By relating the housing site and part of the recreational facilities costs to the total project cost, we

determined the benefit to low- and moderate-income families to be about 60 percent. Since the recreational facilities are for softball and baseball tournaments, horse shows, and civic meetings, we determined the remaining 40 percent would benefit all county residents, over half of which have incomes above the low and moderate level.

According to the Louisville rating criteria, a project with 60-percent benefit for low- and moderate-income families should have received no more than 20 points for that rating factor--14 points less than the 34 points which had been assigned.

The Louisville Area Office review also concluded that the project was essential for the expansion of low- and moderate-income housing because the housing to be built would be for low- and moderate-income families. The maximum 25 points were assigned to this rating factor without supporting the basis of the determination.

Our review of the application leads us to conclude that the total project cannot be considered essential for housing when a large portion of the project cost is for countywide recreation. Softball and baseball tournaments, horse shows, county fairs, and civic meetings are not necessary for low- and moderate-income housing expansion. A finding of 60-percent benefit to the support of low- and moderate-income housing would have been more appropriate and, therefore, the application should not have received more than 20 points for this rating factor.

If the project had been appropriately rated on the benefit to low- and moderate-income families and support to low- and moderate-income housing, the project may not have received a rating high enough to have been funded. We discussed our findings with area office officials; they stated that the application would be reevaluated.

#### CONFLICTING STATEMENTS ON APPLICATIONS WERE NOT ADEQUATELY RESOLVED

Of the 67 applications reviewed, 8 contained conflicting statements, or the nature of the project seemed inconsistent with the benefits claimed. We visited the eight communities to resolve the conflicting statements and determined that seven of them exaggerated project benefits to low- and moderate-income families and/or their housing. If HUD had adequately resolved the conflicting statements and appropriately rated the applications, some of them might not have been funded.



Statements in eight applications addressing the two primary rating factors conflicted or the nature of the project was inconsistent with other statements describing community development needs and project characteristics. For example, one application stated the project would exclusively (100 percent) benefit low-income families, but another part of the application showed the project would also benefit industry.

The following cases illustrate exaggerated project benefit statements made by communities in their applications.

#### Case one

In January 1977 a community applied for a \$500,000 grant to construct a neighborhood facility with an entrance road and a sewer line extension. We selected the application because it appeared questionable that the project--a new social activity center--would exclusively benefit low- and moderate-income people as claimed. The application stated the project would solely benefit low- and moderate-income families and the elderly by providing them with a place for social and cultural activities.

We were told in September 1977 by the mayor that the project was for a convention and municipal center. The primary purpose of the center was to have a place for holding conventions in a six-county area and to help local businesses. When the center is not being used for conventions, it could be used by all city and county residents, including residents of the five surrounding counties for recreation and meetings.

On November 8, 1976, 2 months before the application was submitted to HUD, the city council passed the following motion:

"The City Administrator be authorized and directed to file an application for a Community Development Block Grant for a multipurpose municipal facility \* \* \*."

On November 23, 1976, the city administrator wrote a letter to the mayor and city council stating:

"Yesterday, November 22, [1976], I met with \* \* \* of the Louisville HUD Office. \* \* \* is a personal friend and had expressed an interest in looking at our project and give pointers [sic] where he thought necessary.

"First of all, on the surface, a Community Center on our site did not look good to \* \* \* as far as

competing with other applications. However, after informing him of related items not apparent, the project suddenly looks as though it will hold water and stand a better than average chance for funding.

"Another area of the project in which there has been a change is in the name. The wording we need to use is 'Neighborhood Center.' The name changing does not create the need for a change in the motion by \* \* \* in which motion directed me to file a C.D. application for a community facilities building. These two facilities could be one-in-the-same."

Although low- and moderate-income families and the elderly can be expected to receive some benefit from the project, they will definitely not be the sole beneficiaries as claimed by the community in the application.

Commenting on our assessment of the project, the city administrator stated in June 1978 that the project is a neighborhood facility--not a convention center--and would include activities such as senior citizen dances, arts and crafts meetings, benefits, and possibly some paying events. He stated that although the facility was primarily for low- and moderate-income people, it will be available to all city and county residents because it will be built with Federal funds. He also said that the sole benefit designation in the preapplication was in error, but the final application did not state the project would solely benefit low- and moderate-income people. The administrator believed this was allowable since HUD approves grants by the application--not the preapplication. He also stated that he met with more than one HUD area office official in November 1976 and took their advice in preparing the preapplication.

The application stated that the project was solely aimed at and was essential for the expansion of low- and moderate-income housing. The application also stated that the city would devote a choice city-owned, 40-acre tract to a planned unit development for low- and moderate-income facilities, of which 25 acres were designated for low- and moderate-income housing.

HUD assigned the maximum number of points for the project's support to the expansion or conservation of low- and moderate-income housing rating factor because it was aimed at and was essential for the expansion of low- and moderate-income housing.

After visiting the city we believe the project is not essential for the expansion of low- and moderate-income housing. At the time of our visit (September 1977), there were no firm plans for developing housing--including the 25 acres designated for low- and moderate-income housing. It appears these claims were made to receive a rating high enough for HUD to fund the project. In his November 23, 1976, letter the city administrator also stated:

"\* \* \* 5. The possibility of designating a portion of the 39.62 acres for low- to moderate-income housing \* \* \*.

"I realize that item No. 5 will come as a shock to some of you but it appears that in order to receive enough points on a rating scale of 100 that this designation is necessary. Actually it is not as bad as it may sound. The area I am speaking of for housing designation is the hillside and not the flat portion. The flat portion would be used for the center and reserved for development of a city building, etc. The area designated for future housing would not have to be of the type which is located at \* \* \*. It could be single or multiple family units and could be sold to private developers as long as the dwellings provided housing for low- to moderate-income families. Of course the city would still reserve the right to sell this property for the construction of housing to whomever it wished and actually retain control \* \* \*."

Although HUD personnel made an onsite visit to validate the information, the application was awarded one point less than the maximum for the benefit to low- and moderate-income families rating factor and maximum points for the support to low- and moderate-income housing rating factor. If the application had been appropriately rated, it might not have received a rating high enough to have been funded.

We provided Louisville Area Office officials with the results of our visit to the community. The program manager stated that the community will be visited and its application reevaluated.

Commenting on our assessment of the project in June 1978, the city administrator agreed that the project is not essential for housing but it would be a catalyst for housing. He restated that the "solely" designation was not used in the final application; he stated that the city was currently doing the detail planning for low-income housing for

the project area. He explained that the letter to the city council was meant to convey that the city would control the land to prevent a private developer from buying the land and building housing that was not for low- and moderate-income families. The administrator stated that the project was explained to HUD officials and if HUD did not understand the project or improperly reviewed the application it was not the city's fault.

### Case two

One county applied for a \$500,000 grant for extending a sanitary sewer. We reviewed this application because it appeared questionable that a sewer extension would exclusively (100 percent) benefit low- and moderate-income families.

The application stated that the project would benefit 1,800 low- and moderate-income residents. These residents were identified as 750 persons occupying existing homes and 1,050 persons expected to occupy housing to be built in the project area.

After visiting the project, we believe it will not exclusively benefit low- and moderate-income families. We determined that only about 60 people, half of which might be low- and moderate-income, of the 750 persons occupying existing homes would benefit from the project. The remaining 690 persons would not benefit from the project because they occupy homes outside the project area. The project will, however, benefit a school which is under construction and five businesses. Also it is questionable whether the other 1,050 persons identified in the application will benefit from the project because at the time of our visit (November 1977) there were no firm plans to develop the housing for these persons.

The county application also stated that the county's urgent community development need was to develop the north corridor for conserving and expanding low- and moderate-income housing. The application stated the project was absolutely necessary to support the conservation and expansion of low and moderate-income housing, and that 325 housing units would be conserved and another 300 units would be added. HUD assigned the maximum number of points to the project for the housing effort rating factor.

Our visit revealed that the county is developing the north corridor for light industrial and commercial uses-- not for low- and moderate-income housing. Moreover, there are only about 25 houses occupied by about 60 people

(mentioned above) in the project area, and there are no firm plans for additional housing in the project area. The project's major purpose is to provide a sewer line for industry, commerce, and the new school. In an October 1977 letter the county regional planning commission director stated:

"In order that the school might have the benefit of city sewage service, the commissioner applied for a HUD Block Grant to build this line. Because HUD guidelines do not allow funds for this purpose, our application was made for funds to build sewer lines to open new lands for the development of housing for low- and moderate-income families (which it will do) \* \* \*.

If the application had been appropriately rated, it might not have received a rating high enough to have been funded.

We discussed our findings with the area office Director of Community Planning and Development; he stated that the community would be visited to verify its application claims and appropriate action would be taken.

Commenting in June 1978 on our project assessment, the housing authority director stated that the data on low- and moderate-income persons was taken from the 1970 census which he believed was the best data available. He stated that after discussions with HUD area office officials, the county agreed to use local funds to extend the sewer line to benefit the low- and moderate-income people identified in the application. He agreed that some commercial concerns would benefit and the school would probably hook up to the sewer line. He also stated that the chances were excellent for residential development and that some of the land along the sewer line would be developed for low- and moderate-income housing. He believed that some of the application statements may have been optimistic but still achievable; however, he stated that he was not above making a project look good.

OVERSTATED CLAIMS NOT IDENTIFIED  
BY ONSITE VISITS

Louisville Area Office personnel had made onsite visits to five communities where we either identified conflicting application statements or found that the nature of the project seemed inconsistent with the benefits claimed. Overstated project benefit claims for four of the five communities had not been identified by area office reviewers. Although an overstated claim was identified in the remaining application, the reviewer did not change the previously computed rating.

After all applications received were rated by Louisville, onsite visits were made to about 55 communities with the highest scores to validate project eligibility and benefit claims. Columbus Area Office personnel did not make any site visits to validate estimated project benefits because HUD headquarters and regional office instructions did not require them to do so.

The following cases illustrate some of the matters that were overlooked during visits by HUD reviewers.

#### Case one

A Louisville Area Office reviewer visited a community which applied for a \$490,200 grant to prepare a 6-acre blighted area for redevelopment. The project included acquiring and clearing land and relocating residents. The reviewer determined that the area was proposed for residential re-use and was suitable for subsidized housing. He did not, however, show the basis for these determinations (such as the people he talked with, the records he examined, or the analysis he made).

The application stated that the proposed activities were in direct support of the long-range objectives of removing substandard and deteriorating housing conditions while assuring standard housing for elderly, handicapped, and low- and moderate-income people; and to promote neighborhood conservation and redevelopment by clearing blighted or inappropriately developed properties not consistent with existing neighborhood trends. HUD assigned the maximum points to support the expansion or conservation of low- and moderate-income housing rating factor.

After visiting the community in September 1977, we learned that housing expansion was not currently planned for the project site; in fact, the project area was zoned for industrial use. Furthermore, the redevelopment of an adjoining site (funded by a HUD grant during the preceding year) was designed primarily for light industry and warehousing.

It is difficult to understand how the development of this area could support the expansion of low- and moderate-income housing. We believe that if the planned use of the project site had been identified, fewer points would have been assigned to the housing rating factor, and the project might not have received a rating high enough to have been funded.

We discussed our findings with the program manager. He stated that the community's application would be reevaluated after area office personnel visit the community.

Commenting in June 1978 on our assessment of the project, city officials stated that the project area would be developed for single or multifamily low- and moderate-income housing. These officials also stated that a residential subdivision was being designed and that although the project area was currently zoned for industrial use, the zoning would be changed.

#### Case two

One community application stated that its \$364,347 sanitary sewer line extension project would benefit low- and moderate-income families 100 percent. A Louisville Area Office reviewer visited the project and determined that the project would benefit low- and moderate-income families 95 to 99 percent. He also found that the project had incidental commercial use, but the city promised that this would be deleted in the final application. The reviewer did not show how he determined the 95- to 99-percent benefit and the extent commercial interests would benefit from the project. HUD assigned one less than the maximum number of points for the project's benefit to low- and moderate-income families rating factor.

We visited the community in December 1977--6 months after the final application was submitted to HUD--and found that the project had not only incidental commercial benefits but also substantial industrial benefits. The project was part of a multimillion-dollar city waste treatment program and included not only extending 8-inch collector lines as stated in the application but also included replacing 10-inch interceptor lines with 15-inch lines. Although the collector lines primarily benefit low- and moderate-income families, some families above the moderate income level are benefiting as are some commercial interests identified by the reviewer.

The new interceptor lines, which are 5 inches larger than existing ones, are required primarily to accommodate higher industrial flows from an industrial park. Based on wastewater generated by the industrial park, we estimate that about 50 percent of the project's benefit is for industry--the rest benefits housing that is mostly for low- and moderate-income families.

The reviewer did not identify the overstated project benefit claim and assigned one point less than the maximum for benefit to low- and moderate-income families rating factor. We believe that if the reviewer had identified all the project beneficiaries and their expected use he would have awarded less points to that rating factor, and the project might not have been funded.

We discussed our findings with area office officials; the program manager stated that the community would be visited and its application reevaluated.

Commenting in June 1978 on our project assessment, a city official said that the interceptor line was discussed with HUD officials after our visit in December 1977, and the city agreed to pay for the interceptor lines with local funds. We believe appropriate corrective action has been taken.

In March 1978 HUD issued regulations for the new Small Cities Program which, if properly implemented, should improve the administration of nonmetropolitan discretionary grants. The major improvements include (1) a national selection system with points being awarded, for the most part, based on the relative standing of all applicants for the various rating factors and (2) requiring more application information on estimated project benefits-- including the number of persons to be served, those that are of low and moderate income, and the nature of the benefit. The new regulations, however, do not require validating estimated project benefits. In June 1978 HUD issued procedures providing guidance to its field offices for implementing and managing the Small Cities Program.

## CONCLUSIONS

Some communities which did not have the most promising programs were given nonmetropolitan discretionary grants because HUD reviewers did not do an adequate job of reviewing the applications. We believe that validating estimated project benefits through onsite visits to the communities is an effective method for determining that only the most promising projects receive discretionary grants. However, additional guidance is needed for validating estimated project benefits during onsite visits.

Although we found a lack of adequate documentation for rating applications, the new HUD regulations on discretionary



block grant administration emphasize the need for such documentation. We are therefore making no recommendation to HUD at this time on this matter.

We believe that the findings disclosed in our review of the discretionary program may be perpetuated in the Small Cities Program unless HUD includes in its implementing instructions requirements for validating and documenting project benefits.

#### RECOMMENDATION

To assure that the most promising projects are funded under the Small Cities Program, we recommend that HUD include in its implementing procedures to area offices criteria for determining when site visits would be required to validate estimated project benefit claims. HUD should also establish a minimum number of communities that should be visited annually. The validation procedures should include:

- Discussing economic and community development needs with local officials to determine if needs are consistent with application claims.
- Examining community records to determine how the project fits in with economic and community development plans.
- Touring the general project area to determine if the condition of the area, the location of the project, and the beneficiaries agree with application descriptions.
- Analyzing the reasonableness of community claims about project effects.
- Providing sufficient documentation and identifying the source and basis for the findings.

#### AGENCY COMMENTS AND OUR EVALUATION

On July 31, 1978, we discussed our findings and recommendations with HUD officials at HUD headquarters. They generally agreed with our recommendation that site visits to all communities to verify project claims would give more assurance that funds go to the most promising programs. However, they said that their present staffing limitations prevent site visits from being made to all communities that HUD plans to fund. They also said that, in line with our recommendation, HUD would issue instructions to its

area offices to point out the need for validating project benefit claims through site visits; however, the decision about the need for and number of such visits would be left to the judgment of the area office director.

We recognize that HUD does have certain staffing limitations and that site visits to all communities it plans to fund may not be feasible in all area offices, depending on workload and volume of applications to be funded. However, we believe HUD should establish criteria for determining when a site visit would be required and should establish a minimum number of communities that should be visited to reasonably assure that grant funds are going to the most promising community programs.

HUD RATING CRITERIA FOR NONMETROPOLITAN DISCRETIONARYGRANT APPLICATIONS FOR FISCAL YEAR 1977

<u>Factor</u>	<u>Maximum percent of rating points</u>
1. Extent of substandard housing in the community.	10
2. Extent of poverty in the community.	10
3. Extent to which the project alleviates a serious threat to public health or safety.	10
4. Financial assistance of another Federal or State agency to fund the project. The funds must have been committed by the agency and needed for timely completion of the project.	10
5. Extent to which the project supports the expansion or conservation of low- or moderate-income housing stock. Three examples are:	25
A. Installing water and sewer lines on a site for federally assisted housing is a necessary project.	
B. Rehabilitation financing to conserve the houses in a predominantly low- or moderate-income area and activities to develop and enforce a building code in a primarily low- or moderate-income area are necessary projects.	
C. Acquiring and clearing land for open space in a low- or moderate-income area is a beneficial project.	

<u>Factor</u>	<u>Maximum percent of rating points</u>
6. Extent to which the project is designed either exclusively, principally, or incidentally to benefit low- or moderate-income families:	35
A. A water distribution project serving only low- or moderate-income families is an exclusive benefit.	
B. A project similar to the one above of which more than 51 percent of the families are low- or moderate-income is a principal benefit.	
C. The same type of project serving less than 51 percent of the low- or moderate-income families would be an incidental benefit.	
Total	<u>100</u>