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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

HUD Needs To Better Determine Extent Of Community Block Grants' Lower Income Benefits

Principally benefitting low-and moderate-income persons remains the primary objective of the Department of Housing and Urban Development's (HUD's) Community Development Block Grant Program. For the \$2.4 billion entitlement city portion of the program, information HUD uses in its report to the Congress may not accurately reflect the extent to which lower income persons actually benefit. GAO found problems concerning (1) cities' inconsistent methods of identifying and reporting beneficiaries, (2) HUD's weak oversight which did not identify grantees' problems or verify performance information, and (3) HUD's inadequate reporting of actual block grant benefits to the Congress.

HUD can achieve more reliable information on the extent to which lower income persons benefit from the block grant program by improving its program oversight and by using actual benefit data in its annual report to the Congress.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses how the Department of Housing and Urban Development establishes and reports information on the extent to which lower income persons benefit from the Community Development Block Grant Program. We made this review to determine whether the information the Department uses accurately reflects the extent to which the program meets its legislative objective of benefiting lower income persons.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary, Department of Housing and Urban Development; interested congressional committees; and other interested parties.

A handwritten signature in cursive script that reads "Milton J. Fowler".

Acting Comptroller General
of the United States

D I G E S T

The Congress established the multibillion-dollar Community Development Block Grant Program with the primary objective of principally benefiting low- and moderate-income people through grants to local communities, primarily cities entitled by law to receive grants. This primary objective remains unchanged by recent significant amendments to the program's authorizing legislation, including those which have reduced the Department of Housing and Urban Development's (HUD's) involvement in different aspects of the program's administration. HUD's basic responsibilities continue for overseeing how entitlement cities use their block grants and for reporting to the Congress annually on block grant accomplishments. GAO's review is related to one of the most basic but largely unanswered questions facing the 7-year-old program--to what extent does the program actually benefit low- and moderate-income people. This is a question in which the Congress has a continuing interest and which HUD addresses each year in its block grant annual report.

GAO found at the nine cities it reviewed that the benefit information cities reported to HUD often did not accurately reflect the extent that low- and moderate-income (lower income) persons benefit from the block grant program. Grantees used inconsistent methods of identifying and reporting lower income beneficiaries, and HUD's weak oversight did not identify problems in grantees' programs or verify performance information.

GAO also found that HUD's block grant annual report to the Congress does not adequately reflect actual grant benefits, a weakness which limits the report's usefulness to the Congress as an oversight tool. HUD based its report primarily on less precise benefit estimates of planned activities rather than on actual benefits of completed activities.

EXTENT OF LOWER INCOME
BENEFITS NOT PRECISELY KNOWN

GAO's review of activities in nine cities shows that cities often could not document that their reported percentages of benefit to lower income people were correct. All nine cities understated or overstated some beneficiary percentages. In some cases, cities' lack of information and support prevented GAO from assessing benefit accuracy or reasonableness. GAO's review findings cannot be projected to the universe of entitlement cities or even to all of the activities that the nine cities conducted. However, GAO believes they show that limitations exist on the reliability of the lower income beneficiary statistics that cities across the Nation report to HUD. (See p. 5.)

Part of the problem is the inherent difficulty in precisely determining who benefits from certain types of community development activities, without conducting painstaking and expensive research. For example, some areawide projects--like parks and community centers--may benefit large segments of the population over different periods of time. Direct benefit activities, such as housing rehabilitation, for which cities collect information through applications, should present fewer beneficiary identification problems. However, GAO found that cities incorrectly reported on the extent to which even these types of activities benefited their lower income residents. (See pp. 6 and 7.)

Housing rehabilitation grants and loans are the most popular block grant-funded activity and often provide substantial monetary benefits to individuals. Collection and verification of beneficiaries' income information are vital to assuring that cities accurately report the extent to which this valuable direct benefit activity aids lower income persons. However, HUD regulations do not require cities to have income eligibility criteria for housing rehabilitation.

Some cities GAO visited use their own income eligibility criteria, and some use other criteria, such as residence in a targeted area. In a prior report GAO asked the Congress to consider the issue of income eligibility requirements for block grant-supported rehabilitation. The Congress directed HUD to report on how to

implement this suggestion. In its response HUD concluded that legislative changes were needed to institute income eligibility limits. GAO is making no recommendations on income verification because the Congress has not yet decided the basic issue of whether HUD should have standards for income eligibility. (See p. 24.)

HUD NEEDS TO IMPROVE ITS OVERSIGHT OF GRANTEE'S COMPLIANCE

Reviewing grantees' performance reports and grant monitoring are HUD's main block grant program oversight processes. From three different vantage points GAO observed deficiencies in the operation and effectiveness of these processes which raise questions about HUD's ability to adequately determine the extent to which the program benefits lower income persons.

First, at its selected grantees GAO found errors and deficiencies in how grantees measured benefits for some of their activities and what performance information they reported to HUD. HUD area office monitoring and reviews of grantee performance reports generally did not identify the problems GAO found. Second, lack of documentation supporting the area offices' monitoring reviews for the selected grantees provided no data for independently determining the extent of monitoring work actually performed. Third, HUD headquarters has reviewed area office monitoring performance and also found deficiencies in how area offices documented their monitoring work and in the procedures they used to plan and carry out monitoring. (See p. 34.)

HUD is changing its monitoring approach and no longer requires area offices to monitor all entitlement grantees annually, as it did before fiscal year 1982. Although HUD now requires area offices to monitor program benefits at only the estimated 20 percent of entitlement grantees selected for intensive monitoring, it still directs area offices to make annual onsite visits at all entitlement grantees. GAO believes these onsite visits provide an opportunity to review how grantees calculate and report benefits to lower income persons.

HUD NEEDS TO GIVE THE CONGRESS MORE RELIABLE BENEFIT INFORMATION

The block grant annual report's usefulness to the Congress as an oversight tool is hampered

because the report does not contain reliable information on the extent to which the program is achieving its primary objective of principally aiding lower income persons. HUD has based the program's annual report largely on estimates taken from grant applications on how cities planned to spend their block grant funds rather than how they actually spent the money. (See p. 36.)

The current timing of grant funding and grantee submission of performance reports on completed programs does not permit HUD to collect enough actual program information before the annual report is due to the Congress. HUD has several options which it needs to consider in determining how it can best use actual performance in preparing the annual report, including

- asking the Congress to extend the report's submission date;
- asking the Congress to allow HUD to report on the most recent program year for which data is available;
- requiring that, for block grant program purposes, cities adopt the Federal fiscal year; or
- obtaining actual performance data from grantees for less than a full year's performance. (See pp. 39 and 40.)

The annual report also does not contain information on how HUD oversees and manages its block grant program, such as

- frequency of monitoring visits to grantees,
- types of deficiencies and violations uncovered by HUD, and
- actions taken by HUD and cities to correct violations and deficiencies and prevent recurrences.

GAO believes that kind of information would be useful to the Congress in assessing HUD's ability to determine the extent to which grantees are carrying out statutory objectives and complying with program requirements. (See p. 42.)

RECOMMENDATIONS TO
THE SECRETARY, HUD

GAO recognizes the need for HUD, the Congress, and the public to know whether Federal programs--block grant or otherwise--are effectively accomplishing statutory objectives while still maintaining the local flexibility of grantees. GAO believes that more reliable reporting of block grant benefit information can be achieved by more effective program monitoring by HUD.

The Secretary should require area offices to verify the accuracy of the information reported by grantees as benefits provided to lower income persons. Area offices could do this during their annual onsite visits by reviewing the grantees' methodology for developing benefit data and by examining a sample of the documentation supporting the beneficiary claims. With elimination of the area offices' detailed grant application reviews, additional area office resources should be available to verify benefit information at all entitlement grantees. (See p. 35.)

Also, to enhance the block grant annual report's usefulness to the Congress and the public, the Secretary should use actual data as the basis for reporting benefits to lower income people and include in the report information on HUD's monitoring activities, including scope, frequency, and monitoring results. (See p. 43.)

AGENCY COMMENTS

GAO requested HUD to comment on this report, but HUD did not provide comments within the time period provided for in Public Law 96-226. GAO also requested the nine cities to comment on excerpts of the report pertaining to their grants. Five cities responded and two of the five cities provided additional information and raised points which are incorporated in the report. (See apps. II through VI.)

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ABBREVIATIONS

CDBG	Community Development Block Grant
CPD	Community Planning and Development
GAO	General Accounting Office
GPR	Grantee Performance Report
HUD	Department of Housing and Urban Development

CHAPTER 1

INTRODUCTION

With passage of the Housing and Community Development Act of 1974, Title I (42 U.S.C. 5301), the Congress established what has become one of the largest Federal block grant programs. The act directed the Department of Housing and Urban Development (HUD) to administer the Community Development Block Grant (CDBG) Program with the primary objective of aiding "the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income." These are the basic benefits which program activities give the community, either directly to individuals or indirectly to persons living in the community. This report addresses one of the most basic but largely unanswered questions facing the 7-year-old program--to what extent does the program actually benefit low- and moderate-income people. The Congress has a continuing interest in this question and HUD addresses it each year in the CDBG Program's annual report.

The act's primary objective remains unchanged despite significant amendments to the legislation, including the Housing and Community Development Amendments of 1981. The amendments eliminated the requirement that entitlement communities submit to HUD detailed plans and applications for spending program funds and turned over the small cities' portion of the program to the States. But communities must still certify that their projected use of funds has been developed to give maximum feasible priority to activities which will be used for at least one of three broad statutory purposes: (1) benefiting low- and moderate-income families, (2) aiding in the prevention or elimination of slums or blight, and (3) meeting other community development needs that have a particular urgency.

While the 1974 act and recent amendments provide for greater decentralization of authority to cities compared to the categorical programs CDBG replaced, local discretion must be used within the three broad statutory purposes. The 1974 act represented a compromise between the administration and the Congress, resulting in a program with more Federal involvement than a "revenue sharing" program but less than the earlier categorical programs.

Communities assisted under the program can undertake a wide range of activities, including acquiring and disposing of property, street improvements, water and sewer facilities, rehabilitation of private properties, public services and parks, playgrounds, and other recreational facilities. In the sixth program year, entitlement cities budgeted the greatest amount of CDBG funds for housing rehabilitation and related activities (34.5 percent), followed by public works (26.7 percent), acquisition/demolition (17.1 percent), public services (10.6 percent), public facilities (7.1 percent), and open spaces and parks (4.2 percent).

This report focuses on the entitlement cities, which have populations over 50,000 or are central cities of standard metropolitan statistical areas. Some urban counties with populations over 200,000 are also entitled to receive funds but were not included in our study. The entitlement grantees meeting basic standards in carrying out their programs are assured of receiving the yearly entitlement allocation that is determined by a set of statutory formulas and by the amount of funds the Congress authorizes and appropriates. In fiscal year 1982 HUD expects to give about 580 cities and 86 counties about \$2.4 billion in CDBG grants. During the program's first 7 years (through fiscal year 1981), HUD awarded CDBG grants of over \$23 billion, with about \$18 billion going to the entitlement communities. The program is currently authorized through fiscal year 1983.

ORGANIZATION AND MANAGEMENT OF THE CDBG PROGRAM

Using funds granted by HUD annually, entitlement cities operate their CDBG Programs on a locally set fiscal year which often differs from the Federal fiscal year. The program is guided by HUD headquarters through the Office of Block Grant Assistance under the Assistant Secretary for Community Planning and Development (CPD). Under guidance from CPD headquarters, staff in the 40 HUD area offices administer and monitor the program at the cities.

Prior to fiscal year 1982 awards, entitlement cities submitted a detailed annual application to their HUD area office describing activities to be carried out during the program year. Cities' annual applications had to be consistent with a 3-year plan that identified community development needs and the activities to address them over the 3-year period. Area offices reviewed the applications to see that they were not plainly inconsistent with generally available facts and data and that the activities proposed were eligible and not plainly inappropriate to meeting the identified needs and objectives. Funding of the entitlement city was automatic unless the area office expressed disapproval during a limited review period.

With the 1981 amendments, cities now need only submit a statement of community development objectives and projected use of funds and provide HUD with certifications that they will comply with the law. When entitled cities do this, HUD must offer them a grant, the amount of which is calculated on a needs-based dual formula. Also, HUD may not hold the cities to the projected uses as long as actual expenditures were for activities eligible under the law. The act still requires cities to submit an annual performance report to HUD after each program year. The act also requires HUD to review and audit each city annually to determine if it has carried out its activities, its housing assistance plan, and certifications in accordance with the primary objectives of the act. The act allows HUD to reduce cities' annual grants based on its review findings. In October 1982, HUD published proposed

interim rules to amend its regulations primarily to reflect the recent legislative changes to the program. Although the rules also propose eliminating some present performance reviews, the regulations would still require that HUD review grantees' activities for compliance with one of the the three broad statutory purposes.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine if the beneficiaries of the CDBG Program, which cities claim are largely low- and moderate-income persons, could be verified and to comment on the accuracy of this information which HUD reports to the Congress in a statutorily required annual report. We were particularly interested in the low- and moderate-income person benefit purpose because of its continued emphasis within the "primary" objective of the act. Although projects could also meet the purposes addressing slums and blight or urgent local community development needs, cities justified few activities on these bases.

In addition to the beneficiary issue, we reviewed the adequacy of HUD policies and procedures for overseeing cities' performance and for checking the reliability of the data that cities submit to HUD and which HUD in turn reports to the Congress.

We began by examining available reports on the subject of who actually benefits from the CDBG Program. We considered our past work, reviews of HUD's Office of Inspector General, HUD internal work or HUD-sponsored studies by outside contractors, and work done independently by groups with various viewpoints. However, no report answered the benefit questions on a national basis using actual beneficiary data gathered at cities for the various types of eligible CDBG activities. We also reviewed the program's legislative history; HUD regulations, handbooks, and notices; and other HUD documents and analyses.

We interviewed most of the office directors and many other staff persons involved with CDBG under HUD's Assistant Secretary for CPD and CPD staff in 8 of HUD's 40 area offices. We also met with independent evaluation groups interested in the CDBG Program and with national groups representing low- and moderate-income people and various city officials. Our review was made in accordance with generally accepted principles of Government accounting.

Most of our work was performed at nine judgmentally selected entitlement cities and the eight cognizant HUD area offices responsible for monitoring the cities' CDBG Programs. We selected the 9 cities from a 200-city random sample HUD used to represent statistically the approximately 580 entitlement cities for its annual report data base. We were also interested in how HUD entered city beneficiary data into its data base and how it used the information to project low- and moderate-income statistics nationwide. Key characteristics for our selection were geographic dispersion and a reasonable mix of variables such as dollar amount of CDBG grant, central versus suburban city, population, and

economic distress. The nine entitlement cities we selected and the eight cognizant HUD area offices are:

<u>City</u>	<u>HUD area office</u>
Atlanta, Georgia	Atlanta, Georgia
Town of Babylon, New York <u>1/</u>	New York, New York
Bayonne, New Jersey	Newark, New Jersey
Buffalo, New York	Buffalo, New York
Greenville, South Carolina	Columbia, South Carolina
Los Angeles, California	Los Angeles, California
Nashville, Tennessee	Knoxville, Tennessee
Sacramento, California	San Francisco, California
Santa Monica, California	Los Angeles, California

From each city's CDBG Program we selected five activities for detailed review. The selected activities were those which were closest in dollars budgeted to the median-sized activity in each of five major categories used to classify CDBG activities. In total we reviewed 49 activities, because we reviewed more than the selected activity in some multiactivity projects. Most of the activities we reviewed were funded by grants from fiscal year 1980 appropriations--the sixth program year. That program year was the last for which complete data was available at the time of our review. In some cases we substituted the fifth year version of the same or similar activity if few sixth year funds were actually spent. We performed our field work between July 1981 and January 1982. (A more detailed description of our selection methodology appears in app. I.)

Our work is not intended to be a general evaluation of the CDBG Program. Rather, we concentrated on the program's primary objective of benefiting lower income persons and the adequacy of HUD's monitoring for this important statutory objective. Where applicable, we examined the adequacy of existing procedures to determine whether identified weaknesses could occur on a widespread basis. The results of our review are not intended to be statistically representative nor capable of being projected across the whole program. However, we believe that our findings show that there are limitations on the reliability of the lower income beneficiary information that cities nationwide report to HUD and which HUD reports to the Congress.

Finally, the report's observations and findings may not be applicable to other Federal block grant programs, such as those recently created by the Omnibus Reconciliation Act of 1981 (Public Law 97-35). Unlike many of the newer block grant programs, CDBG contains more requirements and provides for somewhat greater Federal involvement in local government administration of the program.

1/Although Babylon is incorporated as a "town" government, for CDBG Program purposes it is treated as an entitlement city.

CHAPTER 2

CITIES OFTEN DO NOT KNOW PRECISELY

THE EXTENT TO WHICH THEIR ACTIVITIES

BENEFIT LOW- AND MODERATE-INCOME PERSONS

In their applications, the nine cities showed that nearly all of the 49 CDBG activities we reviewed in detail were intended to benefit low- and moderate-income persons. However, we found that for 11 of 49 activities, cities could not document the accuracy of actual low- and moderate-income beneficiary percentages the cities reported to HUD in their annual performance reports. We found that all nine of our cities understated or overstated some low- and moderate-income beneficiary percentages and five cities did not report beneficiary data for some activities. Because we found different problems in the methods each of our selected cities used to calculate benefits, we believe it is likely that other cities nationwide have problems reporting to HUD the extent to which CDBG activities actually benefit lower income persons. Therefore, the Congress, HUD, and the public may not know the extent to which the program is accomplishing its primary legislative objective of principally benefiting lower income persons.

Adding to this uncertainty, we found weaknesses in city procedures for verifying beneficiary incomes for activities--such as housing rehabilitation assistance--in which people must apply for the benefits. Although HUD does not require cities to verify income levels of individual applicants, many cities perform some type of verification. The adequacy of a city's verification procedures may significantly affect a city's ability to target funds to lower income groups and to report beneficiary statistics accurately to HUD.

Finally, two cities justified four of the activities we reviewed as meeting the program's second broad statutory purpose of preventing or eliminating slums and blight. However, the cities did not have HUD-required documentation in their files showing that the activity locations met local criteria for slums and blight designation.

Precisely measuring benefits for both areawide and direct benefit projects is difficult, and we believe that there are limitations in the reliability of the lower income beneficiary statistics that cities report to HUD. Nevertheless, we are not now recommending additional requirements on entitlement cities because of the concern that local grantee flexibility be maintained and because the basic issue of nationwide standards for income eligibility has not been resolved by the Congress. However, we believe that many of the problems identified in this report concerning the reliability of benefit statistics can be resolved through more effective HUD oversight.

HOW CITIES REPORT PROGRAM BENEFICIARIES

HUD requires entitlement cities to send the cognizant HUD area office an annual performance report showing, among other things, the percentage of each project's or activity's ^{1/} low-income and low- and moderate-income beneficiaries. The regulations define "low and moderate" income persons as members of families whose income does not exceed 80 percent of the median family income of the metropolitan area. HUD allows cities to use the applicable low- and moderate-income limits periodically published by HUD for lower income housing assistance under section 8 of the Housing Act of 1937 (42 U.S.C. 1437f). In contrast, the regulations define "low" income persons as members of families whose incomes do not exceed 50 percent of the median family income of the metropolitan area. For simplicity we use the term "lower income" to mean low and moderate income.

The performance report--officially titled the Grantee Performance Report (GPR)--differentiates between and requires separate beneficiary tallies for "direct" and "areawide" benefit activities. HUD describes direct benefit activities as those for which beneficiaries submit an application as an integral part of receiving assistance. For example, homeowners desiring to obtain CDBG loans or grants for housing rehabilitation generally need to submit an application showing that they meet locally set eligibility criteria. Applications should help the city direct CDBG funds toward the intended target group and provide the necessary beneficiary data to complete the GPR.

Areawide projects, on the other hand, are generally designed to benefit a geographic area and do not require applications from beneficiaries. Examples are street paving and park construction. Barring unusual circumstances limiting access, HUD allows cities to assume that areawide projects create benefits to the area's lower income population to the same extent that lower income persons reside in the area. Cities' usually base their benefit estimates on the percentage of lower income persons measured by the most current U.S. census data. Sometimes cities use locally developed demographic data to update census information.

HUD regulations require each city to maintain in its files the documentation on which basis it determines that projects benefit lower income persons. For areawide projects, the documentation would most likely be census data. However, HUD regulations state that it also may include planning studies, welfare and unemployment records, local surveys, and similar generally available

^{1/}As previously discussed, projects may include one or more activities. For convenience, we generally use the term "activity" to mean a single-activity project or one part of a multiactivity project.

information. For direct benefit projects the documentation would likely be the financial information, if any, collected on the beneficiary applications. If one of the qualifying criteria for a direct benefit activity is not income, the cities would either have to collect that information on applications or provide other "generally available information" to substantiate benefit claims.

HUD directs cities to omit reporting specific beneficiary numbers on the GPR when activities benefit persons throughout the city. Also, HUD instructs cities to omit beneficiary numbers for economic development activities designed to benefit more than a specific area in a city and for activities directed toward removing architectural barriers which restrict the mobility and accessibility of elderly or handicapped persons.

DIRECT BENEFIT ACTIVITIES: WHAT
CITIES REPORTED AND WHAT WE FOUND

Based on the city records, which were generally application files of recipients, we found that 18 of the 20 direct benefit activities reviewed principally benefited lower income persons. This was one more than that reported by the cities on their GPRs. However, in comparing the precise degree to which beneficiaries were lower income people--as shown on table I on page 9--our calculations of the percentages completely agreed with what the cities reported in only 5 of the 20 activities. The causes of the differences varied--for five activities cities used incorrect methodologies and for five activities cities used incorrect data sources. For the five remaining activities we could not determine a reason for the differences because the cities did not have adequate documentation of their methodology or data source at the time of our review. Santa Monica was the only city which did not conduct direct benefit activities during the program year reviewed. We also reviewed grantees' low-income benefit percentages. However, the low-income percentages are not included on table 1 because the most significant differences relate to the grantees' lower income benefit percentages. (The distinction between "low" and "lower" was discussed on the previous page.)

The following is a summary of our observations at each of the cities followed by the results of our review of city procedures for verifying the income data reported by applicants for direct benefit assistance. Most of the cities based their beneficiary estimates in the GPR on information obtained from program applicants. HUD does not require cities to verify the accuracy of applicant data, and we found that the quality of effort in this area varied widely among the cities reviewed.

Table I
City Reported and GAO Calculated
Percentages of Direct Activity Beneficiaries

Project no. and type of activity reviewed	From GPR:		Percentages from GPR lower income	GAO calculated percentages lower income	Differences in percentages (note a)	Reason for difference
	Estimated cost	Expendi- tures				
----(thousands)----						
Atlanta						
79-03 Acquisition- Relocation	\$500	\$494	58	33	25	City did not maintain supporting documentation to provide reason for difference.
79-01 Rehabilitation	350	350	100	96	4	
79-43 Public Services	325	325	90	100	(10)	
Babylon						
7904.7 Rehabilitation	221	221	92	89	3	City counted handicapped beneficiaries as lower income despite contrary data.
Bayonne						
80-10 Rehabilitation	700	361	b/ 65	b/ 69	(4)	City used incomplete data.
80-7 Rehabilitation of day care facility	100	100	85	c/	c/	See footnote c.
Buffalo						
81-21 Rehabilitation	148	49	64	84	(20)	In both cases the city used census rather than actual beneficiary data.
81-29 Rehabilitation	214	66	53	77	(24)	
Greenville						
166 Relocation	100	29	d/ 0	80	(80)	City did not include low income persons in the percentages for lower income.
153 Rehabilitation	65	29	47	67	(20)	
167 Rehabilitation	175	75	27	100	(73)	
Los Angeles						
3 Public Service	224	188	e/ 87	85	2	City used census along with actual beneficiary data for estimating tenants in rehabilitated housing.
15 Rehabilitation	265	244	e/ 71	63	8	
3 Rehabilitation	390	349	e/ 67	57	10	
Nashville						
80-9 Rehabilitation	100	91	100	100	0	-
80-1 Rehabilitation	687	687	100	100	0	-
79-12 Relocation	5	1	100	100	0	-
Sacramento						
6 Rehabilitation loan processing	200	113	100	100	0	-
2 Rehabilitation	250	186	100	100	0	-
9 Relocation	75	62	100	92	8	City used wrong lower income definition.

Santa Monica The city did not conduct any direct benefit projects.

a/Differences indicate city overstated or understated percentages. () denotes negative; i.e. understatement by city.

b/Calculation of these figures was based on questionable data. (See p. 9.)

c/This project was changed from areawide to direct benefit designation by the grantee after GAO found it was omitted from the GPR. We were unable to check the benefit percentage because the change occurred late in our field work. (See p. 10.)

d/Greenville's report of 0 percent lower income benefit for this project is obviously incorrect because all grantees were reported to be low income. Therefore all should also be included in the lower income percentage. The other Greenville lower income figures are also apparently incorrect. (See p. 11.)

e/These figures appeared on Los Angeles' GPR work sheets. The final sixth-year GPR was completed during our field work and used our calculated percentages.

Los Angeles and Buffalo used census data to estimate direct beneficiaries

Although Los Angeles was late with its GPR for the sixth program year and had not submitted it to HUD at the time of our review, worksheets for the document showed that the city based its housing rehabilitation beneficiary data on actual beneficiary data and a census-based estimate for vacant units and units where tenant information could not be obtained. We calculated beneficiary levels based only on the actual recipient information. The city adopted our percentages of lower income benefit for inclusion in the GPR that was still being prepared when our field work ended. The direct benefit activities we reviewed in Los Angeles consisted of two housing rehabilitation programs and a public service providing child day care. The city used only actual beneficiary data on the one public service project. However, we learned that the city had used actual beneficiary data combined with census-based estimates for reporting some other direct projects in the sixth year GPR. Los Angeles agreed to exclude the estimate figures from its actual beneficiaries for sixth year GPR reporting.

Buffalo also used census data to report on beneficiaries for the two direct benefit projects we examined there. The two private property rehabilitation activities we examined in Buffalo were designed to provide a grant or loan for buildings of one to four units. Our computations, based on a review of the rehabilitation beneficiary files, showed that the statistics Buffalo reported significantly understated the percent of lower income beneficiaries. As previously mentioned, GPR instructions ask cities for the number of direct beneficiaries and the percentage of beneficiaries with lower incomes. Providing this kind of information requires cities to gather and analyze information from an activity's actual beneficiaries. However, Buffalo program officials said that it was not practical to compile and submit this type of data.

Bayonne's income eligibility criteria raise questions about direct benefit claims

The differences between our figures and Bayonne's on the city's housing rehabilitation activity occurred because the city used incomplete data. Bayonne included only 9 months of beneficiary data on its GPR because a full year's data was not available, according to a consultant who prepared Bayonne's GPR. However, our concerns with the beneficiary data for the rehabilitation activity go beyond the incomplete reporting.

Bayonne conducted its housing rehabilitation program throughout the city. Applicants had to earn \$20,000 or less, regardless of family size, and qualify for a leveraged private bank loan for their proposed work. Bayonne, however, likely overstated the percentage of lower income beneficiaries for reporting in the GPR because the city treated the applicant's income as family income and did not consider the possibility that other household members

had incomes. Also, Bayonne considered only wages as income--disregarding other potential sources such as interest, dividends, or rents from apartments in applicants' homes. The likelihood that households indeed had income that was not reported to the city is indicated by several cases in which applicants with small reported incomes were approved for large bank loans. In addition to the problem with defining income, Bayonne differed from other cities by counting family members only and not applicants as beneficiaries for the GPR. HUD's GPR instructions are not clear on this point.

Also, we found that Bayonne omitted one activity from its sixth year GPR--rehabilitation of a building to become the new home of an existing child day care program. At our request, Bayonne revised its sixth year GPR by adding the activity, reporting it as a direct benefit activity. Bayonne had included the facility on its fifth year GPR as an areawide activity. Because the change occurred late in our review, we were unable to test application files of the existing day care facility to estimate beneficiaries of the uncompleted facility. The city's community development planner said that he used present information to estimate future beneficiaries as 85 percent lower income. The planner said that the construction of the day care facility was characterized as direct benefit because an application is required to enroll in the day care program.

Sacramento overestimated some benefit figures through use of incorrect low income definition

Our differences with Sacramento's reported benefit percentages for three direct benefit activities were mainly with the city's "low-income" beneficiary figures. While HUD defines low income beneficiaries as those with incomes less than 50 percent of the median family income for the metropolitan area, Sacramento incorrectly used 80 percent of the median family income. As a result, the city reported low income beneficiary percentages of 36 percent, 100 percent, and 87 percent for the three projects. Using the correct definition we calculated low-income beneficiaries of 20 percent, 79 percent, and 39 percent, respectively, for the three projects. The responsible city official said that he believed the percentages were correct, but we learned that the city had used the State criterion for low-income persons (80 percent of median family income) rather than HUD's definition.

A similar error occurred for the lower income benefit the city reported for its relocation activity. (See table I.) The city also used the State criterion for lower income persons (120 percent of median family income) rather than HUD's definition. HUD San Francisco area office officials had not noticed the incorrect reporting but acknowledged the error when we questioned them. Sacramento agreed to change its GPR and use the correct definition in the future.

Atlanta acquisition-relocation activity
failed to meet lower income benefit claims

Atlanta reported in its GPR that an acquisition-relocation activity principally benefited lower income persons. We found, however, that only one-third of the beneficiaries relocated from their acquired homes during the year under review were lower income persons. For example, we found five families with incomes ranging from \$30,828 to \$58,728 who received relocation assistance under the activity. The project manager responsible could not explain the GPR benefit claim other than that clear guidance for completing the GPR was not available from the city or HUD. Because the city used residency in the targeted activity area as the criterion for participation and not income, all the families cited above were eligible regardless of their income level. Although the city may be able to justify the activity as meeting another statutory objective, we believe the city should not have justified the activity as primarily benefiting lower income persons.

For the other two Atlanta direct benefit activities we reviewed--housing support services (rehabilitation) and comprehensive services to the elderly and handicapped (public service)--we did not determine the reason for the differences with our computations. For all three direct benefit activities reviewed, the city lacked documentation for either the procedures followed or for the data supporting the benefit claims.

Misunderstood procedures may have
caused differences in Greenville's
direct benefit percentages

For its direct benefit activities, Greenville's GPR showed more low-income beneficiaries than lower income beneficiaries. For the three activities the city reported low-income benefits of 100 percent, 53 percent, and 73 percent while reporting lower income benefits of only 0 percent, 47 percent, and 27 percent, respectively, for the same activities. This is incorrect because the lower income total--which includes persons who earn less than 80 percent of median income--should be inclusive of all low-income persons who have less than 50 percent of median income. Apparently, Greenville misunderstood HUD's GPR instructions, although we could not confirm this because the person who completed the city's GPR no longer worked for the city and could not be contacted.

Greenville reported that most of its direct benefit activities had income qualifying criteria which would limit assistance to lower income persons. However, Greenville made its activities available to anyone residing in targeted areas. City officials acknowledged that income was not a key determinant in who received aid under its direct benefit activities but stated they were certain that virtually all beneficiaries were in fact lower income people. As shown on table I, our review confirmed that the city's direct benefit activities principally benefited lower income people.

All of Nashville's
beneficiaries were low income

Nashville was the only city which, based on city records, correctly reported all beneficiary data on the activities we reviewed, including both low- and lower income benefit percentages. With few exceptions, the city targeted its direct benefit activities to low-income persons by limiting eligibility to applicants with incomes below 50 percent of the city's median income. For example, while Nashville's median income was \$18,700, the city set eligibility income limits of \$6,500, \$8,500, and \$11,500 for the three activities we reviewed.

Babylon's assumption of automatic
lower income benefit for architectural
barrier work questionable

Our analysis of the case files for the beneficiaries of the housing rehabilitation project in the Town of Babylon resulted in a difference between our calculated percentages of lower income benefit and those submitted to HUD in the GPR. The disagreement is caused by the grantee's count of handicapped beneficiaries as lower income regardless of their actual income. Babylon reported lower income benefit as 92 percent while we calculated 89 percent. Our review of incomes reported on applications showed that 14 of 131 beneficiaries were from families of handicapped applicants who had family incomes above the applicable section 8 family income limit.

The city based its attribution of lower income benefit to handicapped individuals on the provision in the HUD regulation which allows a project removing architectural barriers to be assumed to principally benefit lower income persons. However, that assumption is conditioned on the fact that no "substantial evidence" contradicts it. A HUD headquarters CPD official said the "substantial evidence" provision was not further defined in writing. However, he said that he would agree that the available income information from these handicapped beneficiaries is "substantial" enough. He said the intention of the regulation conditioning a city's ability to assume lower income benefit for architectural barrier work was to provide a safeguard against possible abuses and a basis for an area office to question such a claim. He added that he would have expected the appropriate office to do so in this case.

We found no indication that Babylon's claim was questioned before we raised the issue. We noted that the type of work performed for the handicapped persons with the rehabilitation grants up to a maximum of \$7,000 generally was to correct accessibility problems in homes.

Income verification procedures
affect extent of lower income benefit

The adequacy of cities' procedures for verifying the incomes of applicants for direct benefit activities can have a large bearing on the extent to which the activities' beneficiaries will be lower income persons. If cities intend their direct benefit activities to primarily benefit lower income persons, they need adequate income verification procedures to establish that their activities meet that objective. Also, without proper income verification procedures cities will not know whether the lower income beneficiary data they report on their GPR's is reliable. Despite the importance of income verification, HUD has no regulations or guidelines on how, or even whether, cities must verify incomes of CDBG direct benefit applicants.

The cities we visited used a wide range of income verification procedures ranging from essentially doing nothing to requiring applicants to submit copies of their Federal income tax returns; using third party credit checks; and obtaining documentation of assets, such as bank accounts. For example, Atlanta did not have income eligibility criteria for the direct benefit projects we reviewed--recipients qualified based on residency in targeted areas. This was the only qualification city officials verified for these projects.

Bayonne's rehabilitation of private properties is an example of an activity in which weak income verification procedures that did not document or consider an applicant's total family income likely affected reliability of reported lower income beneficiaries. Bayonne's application asked only for the applicant's income and checked it only by obtaining a copy of the applicant's W-2 form (which shows income and taxes withheld from pay), or a copy of a social security check. In several cases, even that documentation was not in the files. Bayonne did not determine whether the applicant had other income such as from family members, interest, dividends, or other jobs. Rent receipts were not considered even when the application showed that the applicant's house contained one or more rental units. The likelihood that there was income not reported to the city is also indicated by cases in which applicants with small reported incomes were approved for large bank loans.

In contrast, we found that Buffalo and Babylon followed stricter verification procedures. Family income and assets were checked with copies of income tax returns and other documentation.

In most cases Los Angeles also adequately verified those applicants claiming lower income status for the city's direct benefit rehabilitation and child care services. Generally, Los Angeles fully documented its verification procedures, which included the use of independent commercial credit checks of those applying for loans. However, we were unable to locate the documentation that the procedures were carried out for some recipients. Sacramento followed similar procedures, with which we found no problems.

Nashville verified only wages of applicants for its rehabilitation grant activities. It did not consider assets of those persons receiving grants. For example, an activity providing emergency rehabilitation grants for the elderly or handicapped did not verify assets. However, we recognize that the type of work in this activity--to correct conditions posing a threat to health and safety--makes it doubtful that a person with large assets would voluntarily leave such conditions uncorrected. Those applicants in Nashville's neighborhood strategy areas, where loans were also available, were checked with local banks and credit bureaus, which may have disclosed unreported income.

In Greenville, as noted earlier, income did not determine who received assistance, but it did determine whether the assistance would be in the form of a grant or loan. Procedures for verification included checks of income, assets, credit, and housing costs.

In a recent report to the Congress entitled "Legislative and Administrative Changes To Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions" (HRD-82-9, Jan. 14, 1982), we found that underreporting of income and assets by recipients of benefits from needs-based programs--whether deliberate or otherwise--results in hundreds of millions of dollars in improper payments each year. Based on a review of the six major programs among the 58 identified as providing benefits to the needy, we found that current verification requirements or practices were not adequate to prevent the payments. Although our report's recommendations mainly addressed actions that could be taken on the Federal level for federally administered or funded programs, the report suggested a verification technique potentially very useful to CDBG entitlement cities for which there are no federally mandated procedures. We stated that recipient-supplied Federal income tax returns is a nonautomated data source that could be used to verify recipients' alleged income and assets.

The range of verification procedures used by eight of our selected cities suggests a need for standardization of income verification procedures. The above method is one alternative to accomplish this. HUD regulations or handbooks do not require cities to verify income or assets of direct beneficiaries in CDBG programs. HUD regulations simply define lower income families as those with 80 percent of the median income of the metropolitan area. The regulations also state that grantees "may" use the applicable income limits published by HUD for lower income housing assistance under the section 8 program.

Along the lines of the recommendations of the above cited report, we believe that one alternative useful for entitlement grantees is a HUD requirement that applicants for direct benefit activities intended primarily for lower income persons submit copies of Federal income tax returns to verify both income and assets for program eligibility and for GPR reporting purposes.

Regarding the related subject of income eligibility criteria, we previously reported--"The CDBG Program Can Be More Effective in Revitalizing the Nation's Cities" (CED-81-76, Apr. 30, 1981)--wide disparities in income limits for beneficiaries, especially of housing rehabilitation activities. Cities based eligibility criteria for rehabilitation assistance on income and family size or geographic location alone. Our current study found similar criteria in place in our selected cities. The earlier report cited instances where geographic criteria allowed middle and upper income homeowners to receive block grant assistance. The report also gave examples of "nonessential" types of work being funded.

Citing the great needs for CDBG-funded rehabilitation work and the importance of limited resources being used as efficiently as possible, the report recommended that the Congress consider the "need to develop overall income eligibility requirements for recipients of block grant-supported rehabilitation." A provision of the Housing and Community Development Amendments of 1981 directed HUD's Secretary to report to the Congress on the administrative and legislative steps that can be taken to implement this proposal and some others in our report. HUD's response to the Congress, dated May 10, 1982, concluded that the Congress would need to change the program's authorizing legislation before HUD could implement nationwide income eligibility limits on housing rehabilitation activities. HUD's opinion was, however, that the proposal was unnecessary and unwarranted because grantees already have the option to use locally set income eligibility limits if they choose. If grantees choose not to use them, HUD believes that it is not appropriate for the Federal Government to impose the approach on the grantees.

AREAWIDE BENEFIT ACTIVITIES: WHAT
CITIES REPORTED AND WHAT WE FOUND

At the nine selected cities we reviewed, there were a variety of activities serving geographic areas in the cities. The activities, among other things, improved streets, sidewalks, parks, and senior citizen centers; provided loans to businesses; removed blighted conditions; and paid for such public services as housing referral assistance. However, it is often difficult or impossible to precisely determine the extent to which these activities benefit lower income persons because people do not apply or have to meet individual income criteria to benefit from the activities. The nine cities generally relied on census tract data or other demographic studies to support their reporting in the GPR on the extent to which their activities benefited lower income persons.

The results of our review of 29 area activities are shown in table II. In the table we show the grantees' claimed lower income benefit percentages from the GPR and our assessment of the reasonableness of the percentages. In some cases we were unable to assess the reasonableness because the grantee had little or no documentation or reported no exact benefit percentage. The table also shows the estimated cost of the activities and the amounts

Table II
City Reported and GAO
Assessment of Areawide Activity
Beneficiary Data

Project no. and type of activity reviewed	From GPR:		Lower income percentage from GPR	GAO assessment:			Not reported or GAO unable to determine	Reason for disagreement or for no opinion
	Estimated cost	Expendi- tures		Reason- able	Over- stated	Under- stated		
----(thousands)----								
Atlanta:								
79-24 Economic development	\$400	\$400	69				X	Supporting documentation not available to make determination. Location data indicates greater benefit.
80-13 Public Improvement	180	a/ 0	49				X	
Babylon:								
7902 Public service	10	2	50+				X	Data and methodology undocumented.
7915 Public improvement	60	60	No lower income benefits were submitted for these areawide projects that were justified as addressing slums and blight. (See p. 18.)					-
80-03 Public improvement	72	72						-
8004 Public improvement	30	23						-
Bayonne:								
80-4 Public improvement	118	27	44				X	City kept no documentation of adjusted census data that they claimed was used.
80-5 Public improvement	75	75	44				X	
80-6 Public improvement	67	a/ 0	43				X	
Buffalo:								
81-21 Public improvement	34	a/ 1	b/ 62 to 66	X				-
81-26 Public service	230	170	b/ 50 to 72	X				-
81-03 Public improvement	107	55	65	X				-
81-65 Acquisition/clearance	38	38	c/				X	See footnote c.
81-29 Economic development	110	15	b/ 51 to 56	X				-
Greenville:								
166 Acquisition/clearance	212	153	100				X	Census data not supportive of claims.
119 Public service	23	23	100				X	
165 Public improvement	40	30	100				X	
Los Angeles:								
80-49 Public facilities	425	273	61	X				-
80-6 Acquisition/clearance	886	886	86	X				-
80-67 Economic development	282	253	d/				X	City did not report and had no records on lower income benefit.
Nashville:								
80-8 Public service	30	a/ .7	64	X				-
79-11 Public improvement	175	81	47				X	Census and other data not supportive of claims.
Sacramento:								
778 Public improvement	500	a/ 0	85	X				-
005 Acquisition/clearance	250	83	e/				f/ X	See footnotes.
Santa Monica:								
78-1a Public improvement	222	222	74				X	Lower income benefit figures submitted too late for analysis.
79-505 Public improvement	112	112	59				X	
79-506 Public improvement	26	26	59				X	
79-508 Public improvement (Architectural barrier work)	25	25	d/				X	HUD allows assumption of 100 percent benefit on removing architectural barriers. However, city reported no percentage.
79-510 Public Facility	75	40	e/				X	No data developed to support or dispute "citywide" claim.

- a/Although implementation of this project was delayed, we felt enough information was available to assess the city's benefit claims.
- b/Buffalo reported the individual lower income percentages for each census tract the activity occurred in. We list the lowest and highest.
- c/No percentage given in the GPR because the city reported it as "District wide" benefit. The city said this type of work occurred in all council districts. The specific work we visited appeared to have been done in lower income areas.
- d/The city did not report a percentage for this activity.
- e/This project reported as "citywide" benefit on the GPR.
- f/Although Sacramento did not report beneficiary statistics on its GPR for this activity, we concluded that it would likely principally benefit lower income persons.

expended at the GPR's closing date. These figures indicate the extent to which the activity was completed in the period covered by the GPR.

At one city three activities entirely addressed conditions of slums and blight; for these activities the city does not report lower income benefit statistics. For the 26 activities where cities claimed lower income benefits in their GPR's, we based our assessments on the grantees' records, the available demographic information, and the nature and location of the activity observed in our site visits. We concluded that the percentages for eight activities were reasonable, four were overstated, and two were understated. For nine activities we were unable to make a determination. For the remaining three activities where cities did not report specific beneficiary data but reported the activities as benefiting the entire city or large areas of the city, we were unable to determine whether lower income persons were the primary beneficiaries.

Babylon overstated lower income benefits on some projects

We found that in some cases the city's claim that its area-wide projects principally benefited lower income persons was incorrect. We initially reviewed one areawide public service project which Babylon designated as principally benefiting lower income persons. The city reported on its GPR that "greater than 50 percent" of the project's beneficiaries were lower income persons. Our calculations showed, however, that only 42 percent of the beneficiaries were likely to be lower income persons.

Because of this overstatement we reviewed nine other areawide projects at Babylon and found two more cases where the city overstated benefits to lower income persons. The city reported that greater than 50 percent of the two activities' beneficiaries were lower income persons and we calculated the percentages to be 38 and 42.

The differences between our percentage and those reported by Babylon resulted from different methods of calculating beneficiaries. We based our calculations on census tract data. A consulting firm prepared Babylon's GPR and used census data from the cities' enumeration districts, which according to the firm are smaller geographic areas than census tracts. However, the firm could not satisfactorily document the data or methodology it used. During our field work we used our method to find problems with benefit claims for two other areawide projects. The consultant later provided further information to support its contentions. City officials informed us that they will continue to use enumeration district data, as permitted by the New York area office, to calculate the percentage of lower income persons benefiting from areawide projects.

Reliability of Bayonne's
data is questionable

Although in Bayonne we selected only three areawide activities for review, we found that the city also used the wrong census data to determine the extent to which lower income persons benefited in eight other areawide activities reported in the GPR. This resulted in the city's overstating, by 2 to 7 percent, the number of lower income beneficiaries. Bayonne's GPR also used adjusted census data, but the city and its consultant did not keep records explaining the adjustments. Therefore, we could not determine the overall reasonableness of the areawide beneficiary statistics appearing on Bayonne's GPR.

Neither representatives from the city nor the consulting firm could explain how the city's GPR statistics were based on incorrect census data. The consulting firm made adjustments to this data for such things as changes in Bayonne's public housing population. However, neither the firm nor Bayonne officials had documentation on how adjustments were made.

Buffalo, Los Angeles, and
Sacramento areawide activities
data appear reasonable

We concluded that these cities reported reasonable lower income beneficiary data for the activities we reviewed. In each case the cities used readily available source data and reasonable methodology. For example, Buffalo based its lower income beneficiary data on 1975 demographic data as reported in a 1977 statistical report produced by a private research firm. HUD area office officials accepted the data as the best available information--more current than 1970 census data.

Los Angeles and Sacramento relied on 1970 census tract data or more current special census data to arrive at the percentage of lower income people benefiting from their areawide activities. In each case we examined the source data, visited the activity, and reviewed information from citizen groups about beneficiaries of the cities' activities. We found nothing to dispute the statistics the cities reported in their GPR's.

For one of the areawide activities we reviewed in Los Angeles--an economic development project--we could not determine whether the beneficiaries were principally lower income persons. The activity involved an economic development contractor who received about \$253,000 to (1) process loans to businesses, (2) provide technical assistance to the businesses, and (3) monitor industrial park projects. The businesses were to be primarily located in lower income parts of Los Angeles and primarily conduct labor-intensive manufacturing, which would provide jobs to local residents. However, the city and its contractor did not have records to show whether the activity did in fact principally benefit lower income persons. In reporting this activity on its GPR, Los Angeles

followed GPR instructions which state that cities are not required to report beneficiary data for economic development projects which serve more than a specific area.

Sacramento also funded an areawide activity for which it did not report beneficiary data. However, it appeared that the activity's beneficiaries would principally be lower income persons. The activity involved the city's acquiring four adjacent vacant properties. The city plans to construct housing units for lower income people on the properties, which are located in a census tract having 97 percent lower income residents.

Santa Monica originally did not report lower income data for its areawide activities

All five activities we reviewed in Santa Monica were area-wide. They funded street improvements, a storm drain, street lights, a library restroom renovation for the handicapped, and expansion of a senior citizen center. At the direction of HUD's Los Angeles area office, the city did not report beneficiary data on its GPR but showed four of the activities as "citywide" and the fifth--the restroom renovation--as "architectural barrier removal."

We disagreed with the city's and HUD's classifying the first three projects as citywide. After discussing the matter with us, the area office official responsible for monitoring Santa Monica agreed that the street improvements, storm drain, and street lights were activities which did not benefit the entire city. The city subsequently submitted a revised GPR showing that from 59 to 74 percent of the three activities' beneficiaries were lower income persons. However, the revision was submitted too late for us to assess the reasonableness of the beneficiary data.

Claimed benefits for one of Atlanta's activities were questionable and were understated for another

We were unable to determine the reasonableness of Atlanta's benefit statistics for one of the two areawide projects we reviewed. We concluded that the second project would likely principally benefit lower income persons.

The first project was a \$400,000 business improvement loan program designed to induce businesses to improve commercial or industrial properties located in lower income areas. According to the project description, the program's beneficiaries were to be "the principals of businesses receiving the financing, employees of the firms assisted, residents of surrounding areas, and shoppers who patronize the assisted establishments."

Atlanta reported on its GPR that 69 percent of the program's beneficiaries were lower income persons, but we were unable to

determine the reasonableness of this figure. We confirmed that the assisted businesses were located in lower income areas, but we could not determine whether customers or the employees of the assisted businesses were likely to be principally lower income because Atlanta did not collect that data. We did note, however, that some of the businesses appeared to serve lower income persons. For example, an assisted retail grocery store and neighborhood medical offices appeared to serve residents in lower income neighborhoods. However, one firm receiving a loan employed few persons and manufactured springs for large trucks. It appeared unlikely that many of this firm's customers were of lower income. The major beneficiary of this loan may have been the firm's owner.

The second areawide activity we reviewed involved designing a gymnasium for a city park. The city reported in its GPR that 49 percent of the activity's beneficiaries would be lower income persons. However, the planned location for the facility and our onsite observations indicate that the facility's potential users will likely be principally lower income residents from surrounding communities.

Greenville overstated lower income benefits

Greenville incorrectly reported in its GPR that all--100 percent--of the beneficiaries of the three areawide activities we reviewed were lower income persons. However, available demographic data--1970 census data--showed that for two of the activities, lower income people represented from 64 to 77 percent of the population in the census tracts in which the activities were located. For the other activity we reviewed, services were provided to residents living in many census tracts--some not lower income.

The first activity involved acquiring and demolishing roughly a city block containing about 16 dilapidated buildings. Although the city claimed 100 percent of the activity's benefits went to lower income persons, the city had no supporting data. Census data showed that lower income people represented only 64 percent of the residents where the activity was located.

The second activity improved parks and playgrounds in one of Greenville's neighborhood strategy areas--areas targeted for concentrated community development assistance. Again, while the city reported that 100 percent of the activity's beneficiaries were lower income persons, it could not document this. We observed that the parks and playgrounds would serve census tracts having an average of 77 percent lower income residents. Therefore, the activity appeared likely to principally, but not entirely, benefit lower income persons.

The third activity was an information and referral service to help residents of selected lower income areas assess their needs and obtain assistance from available social service agencies.

Again the city could not document its GPR claims that 100 percent of the project's beneficiaries were lower income persons. We observed that the activity took place in various census tracts, some of which were not lower income, according to census data. However, based on the type of services provided and the overall area served, we concluded that the activity principally, but not necessarily entirely, benefited lower income persons.

We were unable to determine why Greenville reported the three activities as entirely benefiting lower income persons. As noted in the discussion of direct benefits, the person who completed the GPR no longer worked for the city and was not available.

Nashville partially understated benefits

We reviewed two areawide activities in Nashville: a public improvement activity and a homeowner counseling program. While the city reported on its GPR that 47 and 64 percent of the respective beneficiaries were lower income persons, both activities appeared to benefit principally lower income persons.

The public improvement activity included installing sidewalks and paving streets in one of the city's neighborhood strategy areas. Although the city claimed on its GPR that only 47 percent of the activity's beneficiaries were lower income persons, census and local demographic data showed that 67 percent of residents were lower income people. Also, we observed that the improvements clearly benefited area residents.

Concerning the homeowner counseling program, the city planned to teach residents home maintenance and rent them tools. The program was designed to reach homeowners who had previously received housing rehabilitation aid and other homeowners living in designated neighborhood strategy areas. We observed that Nashville's rehabilitation activities had income criteria which targeted aid to lower income people and concluded that the city's report of 64 percent lower income person benefit was reasonable.

DOCUMENTATION OF CONDITIONS LACKING FOR THE FEW SLUM AND BLIGHT ACTIVITIES

Of the 49 activities we reviewed, only 3 were entirely and 1 partially designated to meet the CDBG Program's second statutory purpose of preventing or eliminating slums and blight. HUD regulations provide that projects which eliminate slums or blight can (1) be in areas designated as slum, blighted, or deteriorating areas or (2) eliminate detrimental conditions which are scattered or located outside slum or blighted areas. HUD requires that cities maintain evidence in their files showing that areas in which CDBG work is planned meet the criteria of State or local law. For projects in scattered sites located outside slum or blighted areas, HUD regulation specifies that authorized activities are only those

necessary to eliminate the specific conditions of blight or physical decay necessary to eliminate conditions harmful to public health and safety. However, for the four activities we reviewed--one in Bayonne and three in Babylon--the cities' files had no evidence that they complied with the regulations.

Bayonne's GPR showed that 35 percent of its direct benefit housing rehabilitation activity was used to eliminate slums and blight. However, the city did not have any documentation supporting the blighted and decayed condition it intended to eliminate. Also, we could not determine the accuracy of the 35-percent allocation because Bayonne's records did not segregate slums and blight rehabilitation grants from the others. A city official acknowledged these problems and said that corrective action was being taken.

In Babylon, three of the sixth program year activities we reviewed were areawide slum and blight projects. Here too, Babylon had no documentation of the slum and blight conditions that the activities were to address. During our review the city prepared and submitted to HUD its seventh year CDBG application, including a description of the slum and blight conditions to be addressed by seventh year activities.

CONCLUSIONS

Although the CDBG Program was designed to give cities wide latitude in the types of community development activities they could operate, the Congress, nevertheless, emphasized that the program's primary objective is to target such activities to lower income persons.

Our review of selected activities in nine cities shows that cities often could not demonstrate that the reported percentages of lower income (and in some cases low-income) benefit were correct. Some cities understated lower income beneficiaries, some overstated them and some had little or no support for their beneficiary claims. While our review findings cannot be projected to the universe of entitlement cities or even to all of the activities that the nine cities conducted, we believe that they show that there are limitations on the reliability of the lower income beneficiary statistics that cities across the Nation report to HUD.

Part of the problem is the inherent difficulty in precisely determining who benefits from certain types of community development activities without conducting painstaking and expensive research. For example, some areawide projects--like parks and community centers--may benefit large segments of the population over different periods of time. Direct benefit activities, such as housing rehabilitation, which collect information through applications, should present fewer beneficiary identification problems. However, we found that cities incorrectly reported on the extent to which even these types of activities benefited their lower income residents.

Because we are aware of the competing goals of maintaining local flexibility and the need for HUD, the Congress, and the public to be assured that Federal programs--block grant or otherwise--are effectively accomplishing statutory objectives, we are not now recommending that additional requirements be imposed on entitlement cities. Nevertheless, we believe that more reliable reporting of lower income beneficiary information can be achieved by more effective program monitoring by HUD. This is a theme of the next chapter.

In our 1981 report we asked that the Congress consider the issue of developing overall income eligibility requirements for recipients of block grant-supported rehabilitation. We pointed out that these limits would result in increasing the number of lower income persons who could be served by the program. The Congress, in passing the 1981 Housing and Community Development Amendments, directed the Secretary of HUD to report back on the steps that could be taken to implement this suggestion and others raised in our report. HUD responded that the Congress would have to amend the CDBG Program's authorizing legislation before it could require income eligibility limits on housing rehabilitation activities. However, HUD believes that use of income eligibility limits should remain an option for grantees, rather than a requirement.

While our previous report raised issues relating to the degree to which benefits should be targeted, this report addresses oversight and reporting and HUD's ability to know whether the program is meeting its objective of principally benefiting lower income persons. We recognize that because there is no Federal requirement that cities have income eligibility criteria for housing rehabilitation, some cities use other types of eligibility criteria, such as residence in a neighborhood strategy area or other targeted locations. We believe that collection and verification of beneficiaries' income information is vital to assuring the accuracy of cities' reporting on the extent to which this valuable direct benefit activity aids lower income people. However, we are making no recommendation on income verification at this time because the Congress has not yet decided the basic issue of whether HUD should have nationwide standards for income eligibility.

AGENCY COMMENTS AND OUR EVALUATION

We sent a draft of this report to HUD for review and comment. HUD did not provide comments within the time period provided for in Public Law 96-226. We provided excerpts of the draft pertaining to each of the nine cities to the respective city officials for comment. Five cities responded with their comments. Santa Monica, Sacramento, and Greenville basically agreed with the information on their individual cities. (See apps. II through IV.) Los Angeles and Babylon provided additional information and raised points where they disagreed with information in our earlier draft. We have incorporated their comments in this report where appropriate. (See apps. V and VI.) The remaining four cities did not provide us with comments in the time period provided.

CHAPTER 3

HUD NEEDS TO IMPROVE ITS OVERSIGHT OF GRANTEES'

COMPLIANCE WITH STATUTORY REQUIREMENTS

HUD has continuing statutory responsibility to oversee grantees' ^{1/} programs to make sure they comply with the requirements in the CDBG authorizing legislation. The 1981 Housing and Community Development Amendments have increased the importance of HUD's oversight because grantees will now be submitting less detailed program information at the beginning of their program years. However, our review showed that HUD needs to improve the effectiveness of its two major oversight processes: grantee performance reporting and monitoring. We found that weaknesses in how HUD oversees the accuracy of grantees' benefit claims raise questions concerning HUD's ability to adequately determine grantees' compliance with the CDBG Program's primary statutory objective--principally benefiting lower income persons.

HUD has recently revised its monitoring policy and no longer requires area offices to monitor all entitlement grantees annually. It is focusing area office monitoring resources on grantees with performance or program problems. We believe that verification of benefit data is important for all entitlement grantees. Because HUD expects to continue making annual onsite visits to all grantees, HUD could use this opportunity to review how grantees calculate and report benefits to lower income persons.

HOW HUD OVERSEES GRANTEES' PERFORMANCE

HUD's oversight of CDBG grantees is based primarily on grantee performance reporting (in the GPR), area office monitoring, and financial audits performed by independent public accountants. HUD's authority to conduct this oversight comes from the Community Development Act, which requires grantees to submit performance reports and directs HUD to make reviews and audits of grantees' programs at least annually. HUD designed GPR's, monitoring, and audits to provide actual information concerning grantees' completed and current program year's activities. HUD reviews this information to determine whether a grantee has carried out its activities in a timely manner and in compliance with CDBG regulations and statutory requirements and whether the grantee has continuing capacity to carry out its programs in a timely manner. HUD may make adjustments in the amount of the annual grants based on its review findings. In the past HUD relied on a detailed application process for oversight information, including descriptions of grantees' planned activities and the statutory objectives the planned projects would meet. Because grantees no longer submit

^{1/}HUD's oversight of entitlement grantees includes both entitlement cities and counties.

this detailed application information, HUD will depend more on monitoring and grantee performance reporting.

PROBLEMS IN GRANTEE'S AND
AREA OFFICES' HANDLING OF
GPR HINDER ITS EFFECTIVENESS

The GPR provides HUD with a summary of a grantee's CDBG accomplishments over one complete program year. We found that at our eight selected area offices, GPR's contained errors that the area offices' GPR reviews did not identify. These errors limit the GPR's usefulness to the area offices in overseeing grantee performance and hinder its effectiveness as a management tool.

GPR's are designed to give HUD detailed
information on grantee performance

The GPR is a series of forms on which grantees provide detailed statistical information on their past year's program performance. Among the program areas covered in the GPR are project progress, status of funds, areawide and direct benefits, housing assistance and opportunities, and persons displaced by CDBG activities. HUD requires grantees to submit an annual GPR within 2 months after the end of their program year.

HUD's present GPR was first used by grantees reporting on their fifth program year's performance. Before that the GPR contained less detailed information and covered only a portion of a program year. HUD revised the GPR format and timing so that area offices could integrate GPR information into their monitoring of program progress and compliance.

Grantees submit their GPR's to HUD's area offices which review the submissions and request grantees to provide any needed corrections. HUD area offices, in turn, send copies of the GPR to HUD headquarters CPD in Washington. When the present GPR went into use in June 1980, headquarters CPD sent area offices a memorandum providing guidance on how they were to handle the revised reports. The guidance consisted of checklists which the area offices could use in determining that the GPR's were complete and internally consistent, that is, that all parts of the GPR's were appropriately filled out and figures totaled correctly.

In August 1981 CPD issued a handbook entitled "Reviewing and Processing Entitlement Grantee Performance Reports" which provided more detailed guidance on how area offices could review and analyze GPR information to identify apparent program progress and compliance problems. Before issuing the handbook, HUD headquarters circulated a draft version among the area offices. However, the June 1980 memorandum was the official guidance for the area offices' review of fifth program year GPR's.

Quality of area office reviews
of fifth program year GPR's varied

All of our eight selected area offices performed some completeness and consistency reviews of grantees' fifth program year GPR's. The extent of the GPR reviews varied somewhat among the offices but was generally limited to checking that blanks were filled in and figures totaled. We found in examining the area offices' files that:

- Seven of the eight offices used the suggested checklists from HUD's June 1980 guidance.
- Three offices used the draft GPR handbook and performed additional analyses of GPR data, such as comparing reported performance information for reasonableness against other program and financial data in the area office.
- Six offices reviewed all their GPR's, but two offices failed to review a total of 12 out of 76 GPR's submitted by their grantees.

Even with the minimal reviews prescribed for fifth program year GPR's, we noted inconsistencies in GPR's that the area offices should have detected in their checks. For example, in reporting the percent of beneficiaries who were lower income and low income:

- Nashville's GPR simply showed low-income beneficiaries as 50 percent of the lower income beneficiaries rather than the exact census figures.
- Greenville's GPR showed a higher percentage of low-income beneficiaries than lower income beneficiaries, although the lower-income category should include low-income beneficiaries.

In addition to our finding obvious errors in GPR's, headquarters CPD has found obvious errors with the GPR's it receives. CPD observed that the errors were a clear indication that grantees were not complying with recordkeeping and reporting requirements. Among the common problems CPD identified were computational errors, omitting activity information, improper completion of forms, incorrect cost calculations, and numerous inconsistencies on the different GPR forms.

CPD again advised the area offices to follow its GPR review guidance for the other GPR's and to return GPR's to grantees for correction where necessary. CPD noted that the GPR's value to both area offices and headquarters was very limited when the forms were not correctly filled out.

GPR's usefulness affected by the
timeliness of grantees' submission
and area offices' review

HUD does not intend for the area offices' GPR reviews to result in final conclusions about grantee performance. The reviews are designed to identify apparent problems which should be followed up with monitoring. Therefore, GPR submissions and reviews should be completed before the area offices select projects for onsite monitoring.

HUD's GPR review handbook states that area offices should complete their review for completeness and internal consistency within 5 days after the GPR comes into the office. The area offices should request and receive any necessary corrections from the grantee no later than 30 days after the original submission. The area offices' detailed reviews and analyses of GPR data should be completed within 60 days after the GPR has been determined to be complete.

When area offices reviewed fifth program year GPR's, the review handbook's target dates were not yet effective and slightly different timings applied. Under HUD's June 1980 guidance, area offices had 60 days to review GPR's for completeness and internal consistency and to request and receive any necessary corrections. As now required, grantees had 2 months to submit their complete fifth program year GPR's after the end of their program year. Area offices could extend the reporting deadline if grantees needed additional time to develop data required on the new forms. HUD's GPR review handbook still permits area offices to waive the GPR submission date, if needed, for a period not to exceed 2 months.

Our examination of the timeliness of the fifth program year GPR submissions and reviews at our eight selected area offices showed that most grantees submitted their GPR's after the 2-month reporting deadline. Specifically, we found that:

- Out of 179 GPR submissions, 101 were received after the 2-month reporting date.
- The 101 late GPR's were an average of 29 days late, ranging from an average of 4 days late at the Columbia area office to 64 days late at the New York area office.
- For 55 of the 101 late submissions the area offices had not granted waivers extending due dates.

Although we found that all eight of our selected area offices performed some GPR review, we were able to obtain review completion dates at only seven. As shown below, the seven offices did not complete most of the reviews within the prescribed 60-day period.

- Out of 142 GPR submissions, 97 of the area offices' GPR reviews extended over 60 days.

--The 97 were completed an average of 154 days late, ranging from an average of 38 days late at the San Francisco area office to 217 days late at the Los Angeles area office.

When GPR submissions and reviews extend beyond the prescribed completion dates, GPR information is less likely to be available in time for onsite monitoring. At our eight area offices, only 7 out of 179 GPR's were not received prior to the grantees' onsite monitoring. However, at the seven area offices where we could obtain the information, delays in the area office completion of GPR reviews resulted in only 56 out of 142 GPR reviews being completed before the area office's monitoring visit to the grantee. At several area offices, CPD staff stated that they used other information sources to select projects for onsite monitoring, such as grant applications, and that the GPR was of little use to them.

DEFICIENT AREA OFFICE MONITORING
LEAVES GAPS IN HUD'S OVERSIGHT

Monitoring is the primary means by which HUD carries out its CDBG Program oversight and management responsibilities. We found at our selected area offices that monitoring was not adequate to identify various problems relating to how grantees' programs were being carried out and how benefit information was reported to HUD. The resulting gaps in HUD's oversight limit its ability to ensure that grantees' programs are carried out in accordance with regulations and statutory requirements.

Monitoring is the most important
part of HUD's total program oversight

Monitoring is an ongoing process of reviewing grantee performance that includes reviewing and analyzing reports and documents at the area office and examining program activities and files at the grantee. Area office monitoring can cover many aspects of a grantee's program, such as program progress; eligibility of activities; program benefits; participation of local citizens in program planning and operation; housing assistance activities; housing rehabilitation; and grantee compliance in a variety of special areas, including fair housing and equal opportunity, labor standards, and environmental concerns.

Monitoring ties together the other parts of HUD's grantee oversight. Monitoring is the point where HUD can compare grantees' ongoing performance against the program descriptions it reviewed in the grant approval process. Monitoring also provides the opportunity for verifying completed performance data in the GPR against grantees' supporting documentation. A special part of monitoring is the "annual in-house review" where the area office determines the status of all approved grants using data in the area office including audit reports, GPR's, and monitoring visit reports. Based on the in-house review, the area office determines whether the grantee is carrying out its programs in a timely manner, is complying with applicable laws, and has a continuing

capacity to carry out programs in a timely manner--statutory requirements left unchanged by the 1981 amendments. The area office considers the review results before it decides whether future funds should be granted or whether conditions should be included in future grant agreements.

HUD's "Community Planning and Development Monitoring Handbook," dated January 1980, provides the area offices with guidance on how to manage their monitoring activities, information sources to use in monitoring, what key program areas to review, and suggested monitoring steps and checklists. HUD headquarters also provides area offices with monitoring guidance in an annual field operating plan. The operating plan highlights the specific objectives and goals for that year's monitoring.

Area office monitoring failed to identify problems relating to program benefits

As described in chapter 2, we found that cities often could not demonstrate the accuracy of the percentage of lower income beneficiaries reported on their GPR's. However, the cognizant area offices were generally not aware of the problems our review disclosed. This is particularly noteworthy because some of the problems we identified involved what we consider to be obvious problems with cities' beneficiary determinations. Also, we followed similar procedures and reviewed the same types of records at cities that HUD's monitoring handbook suggests for area office monitoring visits. For example, the cognizant area offices' monitoring did not disclose that:

- Bayonne's criteria for limiting participation in its housing rehabilitation program to lower income persons were inadequate to assure that beneficiaries were actually lower income. (See p. 9.)
- Babylon and Bayonne used incorrect methods of calculating the percentage of lower income persons residing in census tracts served by areawide benefit projects. (See pp. 18 and 19.)
- Los Angeles and Buffalo reported lower income benefits for a direct benefit activity using or including census tract figures instead of counting only actual beneficiaries from the activity's records. (See pp. 7 and 9.)

Area offices often lacked adequate documentation to support monitoring work done

We reviewed the area office files which documented the monitoring work completed at our selected grantees. However, in several instances the area offices lacked adequate documentation to support what program areas the monitors covered and what reviews they completed during their visits. HUD's monitoring handbook

instructs area offices to keep all correspondence relating to the monitoring visits and conclusions in the CPD grantee file. The monitoring letter sent to the grantee after the monitoring visit should be supported by any working papers used in the visit. When possible, the handbook recommends that all documentation pertaining to a grantee be kept in one place.

HUD headquarters' CPD staff considers the monitoring letter sent to the grantee as evidence that monitoring addressed the areas required in the field operating plan. The monitoring letters for our nine grantees indicated that the area offices addressed the four required monitoring areas at each grantee--program progress, program benefit, housing assistance plan, and citizen participation. Beyond those four areas the number of monitoring areas mentioned in the monitoring letters varied considerably among the area offices. At one grantee the area office monitoring addressed only the four required areas. At six grantees the area offices examined one to three additional areas. At our sample's two remaining grantees the area offices examined eight additional areas beyond the required four. Some of the other program areas monitored at our nine grantees included financial management, labor standards, relocation, housing rehabilitation, property acquisition, and fair housing and equal opportunity.

The degree to which the eight area offices documented the monitoring work they claimed they performed at our nine grantees also varied considerably, for example

- At the Knoxville area office the monitors for Nashville extensively used HUD's monitoring handbook guidances and documented work done during the site monitoring.
- At the New York area office the monitoring report for Babylon indicated the grantee's program was being carried out in the areas monitored in accordance with statutory requirements. However, the area office did not maintain documentation showing what projects or records they reviewed to reach this conclusion.
- Newark area office's monitoring report for Bayonne showed that monitors reviewed the city's housing rehabilitation files to determine if the project met the benefit test. However, neither the monitoring report nor any supporting documentation described HUD's review or identified the number of files reviewed.
- Buffalo and Atlanta area offices did not clearly document the scope of their monitoring work.

HUD's reviews of area office monitoring
also noted deficiencies in documentation

HUD headquarters CPD staff has conducted area office performance evaluation reviews at seven of our eight selected

area offices. The evaluations covered several area office functions, including managing entitlement grants and grant monitoring. At the time of our review HUD had not done a performance evaluation of the San Francisco area office's monitoring.

HUD conducted its reviews from September 1979 to May 1981; this includes the period of area office monitoring we reviewed. HUD's reviews noted some of the same deficiencies we found.

--At the Newark, New York, Buffalo, Atlanta, and Los Angeles area offices the performance reviews found overall weakness in documentation and support of monitoring findings.

--At the Columbia and Knoxville area offices the reviews found generally better documentation and support for monitoring findings, with some instances of weak support in Knoxville.

--At the Atlanta area office the review found that monitoring records were not of sufficient detail to demonstrate what monitoring procedures the area office used.

HUD also found problems in the procedures some area offices used to plan and carry out monitoring, report monitoring results, and follow up on monitoring findings. Where the performance evaluations noted deficiencies, they recommended corrective actions to bring the area offices into compliance with HUD's program policies and procedures. In most cases the area offices responded, agreeing to take the necessary corrective actions.

Changes in HUD's fiscal year 1982
monitoring policy will limit its
oversight at some grantees

HUD is revising its approach to monitoring in fiscal year 1982 to target monitoring efforts to those grantees which, in the judgment of the area offices, require the most intensive monitoring. HUD estimates that approximately 20 percent of an area office's entitlement grantees would be selected for intensive monitoring in fiscal year 1982. Area offices could, at their discretion, conduct nonintensive monitoring at other entitlement grantees if staff time remains after completing all the intensive monitoring. Although HUD does not require monitoring for all entitlement grantees, it directs area offices to visit every entitlement grantee at least once during the fiscal year, within available travel funds and time constraints. The visits could be for monitoring purposes or for providing technical assistance to grantees.

In fiscal year 1981 the area offices had a goal to monitor and conduct onsite monitoring visits at all entitlement grantees. At each grantee the monitors were to review the documentation for a sample of projects approved as principally benefiting lower income persons. HUD's fiscal year 1982 monitoring policies specify that area offices' intensive monitoring must verify that

a sample of grantees' approved activities, as they are actually being carried out, either principally benefit lower income persons or meet one of the other two broad national purposes. For the area offices' nonintensive monitoring, HUD does not specify what program elements the area offices should cover, other than some required monitoring of CDBG rehabilitation activities.

HUD designed the revised monitoring approach to make more efficient use of limited staff resources and to ensure comprehensive coverage of priority monitoring areas. We agree that certain grantees may need additional monitoring attention because of their grant size or program problems. However, with the elimination of detailed grant application information, monitoring becomes more important to HUD's oversight of all grantees and to their compliance with the program's primary objective of principally benefiting lower income persons.

HUD's other data sources provide little information on actual program accomplishments and benefits. For example, HUD regulations require that all CDBG entitlement grantees be audited, generally by an independent public accountant, at least once every 2 years. HUD's Inspector General staff told us that audits have primarily examined the grantees' financial statements and only those compliance items that might significantly affect the auditor's opinion of those statements. We reviewed the content of the public accountant audit reports for our selected grantees and found that they primarily addressed financial matters. Area office monitoring is designed to provide the more detailed program oversight, with audit reports serving as an information source in preparing for monitoring.

HUD's Office of Inspector General also performs audits of selected CDBG grantees. However, these audits cover relatively few entitlement cities. For example, in fiscal year 1981 the Inspector General completed 130 audits covering not only entitlement cities and counties, but also grants and loans made under several other HUD programs.

GPR information by itself is inadequate for HUD to use as the basis for an assessment of program benefit. Audits do not give HUD the overview of program benefit provided by annual onsite monitoring. We believe that lack of monitoring for program benefit at some grantees in fiscal year 1982 will limit HUD's ability to accurately determine the extent to which grantees' programs actually benefited lower income persons.

CONCLUSIONS

We found problems in the operation and effectiveness of HUD's oversight processes which raise questions concerning HUD's ability to adequately determine grantees' compliance with the CDBG Program's primary statutory objective of principally benefiting lower income persons. GPR reviews and monitoring form an important part of HUD's oversight of entitlement grantees' programs. HUD

conducts this oversight as part of its legislative responsibility to review the performance of each CDBG recipient at least annually and to determine whether grantees' programs as carried out comply with the CDBG authorizing legislation and other applicable laws.

At our selected grantees we found problems in how grantees carried out some of their activities and what performance information they reported to HUD. Area office GPR reviews and monitoring generally did not identify the problems we found. GPR reviews should check the consistency and completeness of GPR's and provide indications of apparent performance problems which area offices can follow up on during monitoring visits. Monitoring should cover all aspects of grantee program operations, including verifying performance information reported in the GPR. We believe GPR reviews and monitoring, if carried out as described in HUD's handbooks, should have identified the problems we found. However, the handbooks are only advisory and area offices may use other procedures than those in the handbooks. Lack of documentation supporting the area offices' monitoring reviews for our selected grantees provides no data for independently determining the extent of monitoring work actually performed. Reviews by HUD headquarters have found deficiencies in how area offices documented and supported their monitoring work and the procedures they used to plan and carry out their monitoring.

In fiscal year 1982 HUD targeted its monitoring to those entitlement grantees which area offices believed to need intensive monitoring. HUD estimates that approximately 20 percent of an area office's entitlement grantees would be subject to intensive monitoring. Other grantees may be monitored if area offices have time available after completing their intensive monitoring. Although HUD does not require monitoring at all entitlement grantees, it has directed area offices to visit all entitlement grantees during fiscal year 1982, within their available resources. The onsite visits can be for monitoring or for providing technical assistance, both of which address grantee compliance with various statutory requirements.

HUD requires area offices to perform intensive monitoring to review grantee activities to verify that grantees meet one of the program's three broad purposes, including benefiting lower income persons. We agree that certain grantees may need additional, intensive monitoring attention. However, we believe that verifying program benefit is important for all entitlement grantees if HUD is to have accurate, reliable benefit information. Although we recognize that area offices' monitoring resources are limited, we believe the area offices' annual onsite visits provide an alternative enabling HUD to verify benefit information at those entitlement grantees not receiving intensive monitoring. With the elimination of the area offices' detailed grant application reviews, additional area office resources should be available to verify benefit information at all entitlement grantees.

Onsite visits give area offices the opportunity to examine grantee records firsthand, including the data supporting reported benefits to lower income persons. Area offices could minimize the time needed during the onsite visits to verify grantees' benefit claims by reviewing the grantees' methodology for preparing information in the GPR. If a grantee's method of identifying, measuring, and reporting benefits produces accurate, reliable information in the GPR, area offices could reduce their verification of the actual program records and documentation. This would be particularly useful for grantees which showed no other performance problems.

RECOMMENDATION TO THE SECRETARY, HUD

We recommend that the Secretary require area offices to verify the information reported by entitlement grantees as benefits provided to lower income persons by reviewing the grantees' methodology for developing benefit data and by examining a sample of the detailed data the grantee used to support its beneficiary claims.

CHAPTER 4

HUD NEEDS TO GIVE THE CONGRESS MORE RELIABLE

INFORMATION ON WHO BENEFITS FROM THE CDBG PROGRAM

In its sixth annual CDBG report to the Congress, HUD estimated that from 62 percent to 94 percent of CDBG funds benefit lower income persons. However, because the percentages are based on estimated city expenditures and because of drawbacks in HUD's estimating techniques, the annual report is not a reliable source of information on the extent to which the program is accomplishing its primary objective of helping lower income people.

Although in 1978 we reported that HUD should use actual expenditure data in its annual report, HUD has had problems obtaining such data from cities fast enough to use in the annual report. However, HUD needs to solve this problem soon because the 1981 amendments no longer require cities to prepare grant applications containing detailed information on planned use of CDBG funds. Without its historical source of estimated benefit data, HUD will need to look to some other data source to prepare the annual report. A possible candidate, the GPR, if improved, has the potential to fill the vacuum.

Another way HUD could enhance the annual report's usefulness to the Congress and the public is to include information on HUD area offices' annual monitoring of cities' performance. Although monitoring is the cornerstone of HUD's oversight of cities' compliance with the program's statutory requirements, HUD includes little information on the frequency and results of monitoring visits and whether and how cities are correcting program weaknesses identified during monitoring.

WHAT THE CDBG REPORT CONTAINS AND HOW IT IS FORMULATED

Section 113 of the Housing and Community Development Act requires HUD to submit to the Congress, within 180 days after the close of each fiscal year, an annual report describing the progress made in accomplishing the act's objectives and summarizing program funds used during the preceding fiscal year. In April 1981, HUD issued its sixth annual report which covered funds awarded by HUD through the fiscal year ending September 30, 1980.

HUD's reports provide useful information to the Congress on the CDBG Program's operation. For example, the sixth annual report, among other things,

- discusses legislative and regulatory initiatives shaping the program;
- provides information on the appropriation, obligation, and disbursement of CDBG funds;

- discusses planned expenditures by grantees for activities relating to legislative objectives, including the primary objective of assisting lower income persons;
- gives examples of actual accomplishments realized by entitlement grantees using CDBG funds; and
- discusses current program issues, such as city expenditure rates and use of CDBG funds for economic development projects.

HUD based the major portion of its sixth annual CDBG report, including all statistics on benefits to lower income people, on data appearing in the applications of 200 randomly selected entitlement cities. HUD selected the 200-city sample using such criteria as grant size, whether the city was a central or suburban city, and which of the two national funding formulas was used to calculate the city's grant amount.

From the grant applications of the 200 sample cities, HUD encoded key information concerning each planned project. HUD included the estimated cost of projects which cities attested would benefit lower income persons and the census tracts where the projects were to take place. These two items formed the basis for the two methods HUD used to report the extent to which lower income persons benefited from CDBG projects.

City-attested method

Using the first method, called the city-attested method, HUD estimated that 94 percent of 1980 CDBG funds benefited lower income persons. In the report HUD concedes that the city-attested method results in higher benefit estimates. We believe that the method is imprecise and tends to overestimate the degree to which CDBG activities help lower income persons.

The problem with the city-attested method is how it is derived. In preparing their applications HUD instructed cities to classify as benefiting lower income people all funds budgeted for a project (regardless of the area or census tract in which the project is to be located), if the city estimates that more than 50 percent of the project's funds will benefit lower income persons. However, according to CPD headquarters officials, cities often overestimate the degree to which a project will benefit lower income persons. Therefore, cities may be placing too many projects in the over-50-percent category, resulting in too many projects being counted as entirely benefiting lower income persons.

The city-attested method also tends to overestimate lower income benefits because a majority of CDBG projects, nationwide, probably do in fact principally benefit lower income persons and all of these projects' budgeted funds would be classified as benefiting lower income people. As a result, the city-attested

method may be biased in favor of projects principally benefiting lower income persons. Therefore, while the applications of HUD's 200 sample cities showed that 94 percent of their funds were budgeted to benefit lower income persons, the actual degree of benefit could be substantially less--as much as 49 percent less for projects which just qualify for lower income status under the city-attested method.

Census tract method

Using a second estimating method, called the census tract method, HUD estimated that 62 percent of 1980 CDBG funds benefited lower income people. The census tract method, while seemingly more reliable than the city-attested method, still may not accurately depict the extent to which CDBG funds benefit lower income people.

Under this method, HUD counts all of a project's budgeted funds as benefiting lower income persons if a city's application shows that a project is to be located in a lower income census tract--a tract in which a majority of the households have incomes that are 80 percent or less of the median income for the applicable standard metropolitan statistical area. For example, if a city planned to spend \$100,000 to build a park in a census tract in which 65 percent of the households were lower income, the entire \$100,000 would be classified as benefiting lower income persons. Conversely, if the park were to be located in a census tract in which 35 percent of the households were lower income, none of the project's funds would be classified as benefiting lower income persons.

In its report HUD recognized that there are limitations to the census tract method of estimating benefits to lower income persons. Projects which cities show in their application as benefiting the entire city--citywide projects--are excluded from the benefits calculation. Also, as explained above, projects located in upper income census tracts are automatically excluded from the benefits estimate, and projects located in lower income tracts are automatically included. Thus, the resulting estimates may either overstate or understate the true amount of benefits going to lower income people.

Another limiting feature of the census tract method in the sixth annual report is that HUD used 1970 census data to classify census tracts as being lower or upper income tracts. Being over 10 years old, 1970 census data may not accurately reflect a census tract's current mix of lower and upper income households. HUD recognizes this but used the 1970 census tract data because 1980 census data or other comprehensive data sources were not available. Also, HUD believes that it would be too expensive for HUD or cities to conduct special population surveys.

Our work at the nine grantees showed that the census tract method has problems which can result in unreliable estimates on

the extent to which lower income people benefit from the CDBG Program. We found that:

- Activities planned for a census tract may not be completed or even started during the program year for which the grantee estimated benefits.
- Census tract information may be described incorrectly in the application.
- When used to estimate direct project beneficiaries, census tract data may not reflect the actual income levels of people receiving assistance.

HUD MUST FACE DILEMMA OF HOW
TO OBTAIN ACTUAL BENEFIT DATA

Not using actual usage data as the basis for the benefit projections in the annual reports has been a lingering problem to HUD. In our 1978 report we pointed out that HUD's annual reports provide the Congress little information on the actual use of block grant funds and until HUD uses actual data the reports will not adequately assess the extent to which the CDBG Program is accomplishing program objectives. We recommended that HUD advise the Congress how it plans to obtain information on the actual progress cities are making in accomplishing program objectives. In a November 3, 1978, letter responding to our report the former HUD Secretary said that the new, revised GPR and monitoring system "* * * will yield valuable data for use in reporting on progress and actual performance." However, HUD still uses application data as the source of the annual report's benefit information because HUD has been unable to obtain and process GPR information to meet annual report deadlines.

The 1981 Housing and Community Development Amendments, by dropping the requirement that cities prepare detailed application packages, will force HUD to seek a new source of benefit data. The GPR can be a reliable source of actual use data if HUD can resolve the timing problem and correct various GPR deficiencies.

Grantee program year and GPR timing
hinder reporting in the next fiscal year

The act requires HUD to submit its CDBG annual report to the Congress not later than 180 days after the close of the fiscal year. However, the current timing of grant funding and GPR submissions on completed programs does not permit HUD to collect enough actual program information for the preceding fiscal year within the 180-day reporting period. This occurs primarily because cities' program years do not have to coincide with the Federal fiscal year.

For example, HUD is required to send the Congress its eighth annual CDBG report before March 30, 1983. Cities can begin their

eighth program year and receive funding anytime during fiscal year 1982--as late as September 1982. Cities have 2 months after their program year to submit their GPR's to HUD. Therefore, completion of a city's program year and submission of its GPR could extend as late as September 1983 and November 1983, respectively--well beyond the March 1983 reporting date for the eighth annual report.

There are various alternatives for solving this timing problem, including one or more of the following:

- The Congress could amend section 113 of the act to extend the current 180-day reporting deadline so that HUD has sufficient time to include GPR information in the annual report.
- The Congress could amend section 113 of the act to allow HUD to include information in the annual CDBG report on the most recent fiscal year for which data is available.
- HUD could require that, for CDBG reporting purposes, cities adopt the Federal fiscal year.
- HUD could obtain actual performance data from cities covering less than a full year's performance.

Regarding the first alternative, in 1981 HUD submitted to the Congress a proposed amendment extending the annual report deadline from 180 to 270 days. The Congress did not pass the amendment. We believe that unless there were other changes to HUD's system of collecting GPR's from cities, the extra 90 days would not solve the timing problem. The deadline would probably have to be extended to 360 days or more for HUD to have sufficient time to collect a representative sample of all CDBG cities.

Implementing the second alternative, by itself, may result in the annual report containing information that is as much as 2 years old. The third alternative, on the other hand, may place an undue administrative burden on CDBG grantees. The last alternative, collecting actual performance data covering less than a full year's performance, also may create additional paperwork for cities.

We discussed these alternatives with HUD's CPD program evaluation staff and an attorney in HUD's Office of General Counsel who handles CPD program matters. The CPD program evaluation staff observed that the present GPR is not designed for use in the annual report and therefore they are revising it. However, they have not decided how to get the most current year's performance data in the annual report. The CPD staff and the General Counsel official view extending the report deadline as the preferable alternative.

Review and oversight of GPR
need to be strengthened

Aside from solving the above timing problem, HUD needs to improve the area offices' handling of GPR's, as discussed in chapter 3, before the GPR can serve as a reliable source of annual report information. Specifically, HUD needs to reemphasize to the area offices the importance of following the completeness and consistency reviews and the performance analyses specified in the GPR review handbook. HUD also needs to strengthen the area offices' adherence to monitoring procedures specified in HUD's monitoring handbook, including verifying during the monitoring visit data reported in the GPR. Although the GPR review and monitoring are primarily designed for area office oversight, the processes also promote data reliability for the annual report.

The timeliness of the area offices' GPR reviews and forwarding of GPR's to HUD headquarters affects HUD headquarters' ability to analyze the performance data in time for use in the annual report. HUD's GPR handbook notes that the area office review of submitted GPR's should be completed and the corrected copies forwarded to HUD headquarters no later than 60 days after the submission due date to the area office. The handbook adds that allowing a greater period of time or failing to have properly corrected GPR's will cause significant delays in meeting HUD's program evaluation and congressional reporting responsibilities. This will become even more important if the GPR is used as a primary source for the annual report.

THE ANNUAL REPORT SHOULD CONTAIN
MORE INFORMATION ON HUD MONITORING

With the disappearance of the detailed grant application and preaward review, HUD must rely more on monitoring by its area offices as the primary oversight tool for determining whether cities are complying with statutory objectives and requirements. As discussed in chapter 3, monitoring consists of onsite visits to projects and activities by area office staff and reviews of reports and documents relating to the cities' grants, including GPR's and reports. Although monitoring plays the central role in HUD's program oversight, HUD includes little information in its annual report on the scope, frequency, and results of its monitoring of cities' use of block grant funds.

As mentioned earlier, the act requires HUD to at least annually review and audit entitlement cities to determine whether they

- have carried out their activities in a timely manner,
- have carried out those activities and their certifications in accordance with the requirements of the act and other applicable laws, and

--have a continuing capacity to carry out these activities in a timely manner.

HUD area offices generally conduct monitoring or onsite visits at entitlement cities at least annually and prepare written monitoring reports which they send to the city and HUD headquarters.

Although HUD's monitoring activities can be improved (as discussed in ch. 3), the key role monitoring plays in program oversight makes information on monitoring an important reflection on HUD's overall program management. HUD's sixth annual report does not contain information on the frequency of HUD monitoring visits, the types of deficiencies or violations uncovered by HUD, and the actions taken by HUD and cities to correct violations and deficiencies and prevent recurrences. That information, we believe, would be useful to the Congress in assessing HUD's ability to assure that cities are carrying out statutory objectives and complying with program requirements.

CONCLUSIONS

The CDBG annual report's usefulness to the Congress as an oversight tool is hampered because the report does not contain reliable information on the extent to which the program is achieving its primary objective of principally aiding lower income persons. The two methods HUD uses to measure benefits to lower income persons--the city-attested and census tract methods--are based on cities' projections in their applications as to how they intend to spend their CDBG funds rather than how the cities actually spent the money.

By dropping the detailed application package, the 1981 amendments will require HUD to find a new source of benefit data for its annual report. A likely candidate, the GPR, is a potentially useful source of actual beneficiary data. However, as discussed in chapter 3, HUD should assure that grantees are correctly completing the GPR and reporting project information uniformly and on a timely basis. Also, HUD's area offices need to verify data accuracy, as part of their GPR review and monitoring, and complete the reviews within set time frames.

Another GPR problem, one we reported on in 1978, is how HUD can collect GPR's from enough cities and in sufficient time to meet the annual CDBG report's statutory deadline. HUD has several options, including asking the Congress to extend the report's submission date or allowing HUD to report on the most recent year for which data is available--to mention just two. HUD should consider the advantages and disadvantages of various options in deciding how best to obtain actual use data for its annual report.

Finally, although much of HUD's program oversight relies on area office monitoring of cities' performance, the annual report is largely silent on the scope, frequency, and results of HUD's monitoring activities.

RECOMMENDATIONS TO THE SECRETARY, HUD

We recommend that the Secretary:

- Use actual benefit data as the basis for reporting on the extent to which CDBG funds are spent on lower income people.
- Include information in the annual report on area office monitoring activities, including scope, frequency, and results.

FIELD SITE SELECTION AND REVIEW METHODOLOGY

Because it was not practical to conduct field work at a "representative" sample of the approximately 580 CDBG entitlement cities, we selected a small judgmental sample of entitlement cities and their associated HUD area offices in which to do detailed case studies. We chose to do these studies in cities among the 200 in the stratified random sample chosen by HUD for the annual CDBG report data base. The characteristics for which HUD stratified the entitlement cities for selection were size of grant, whether it was a central or suburban city, and whether the city qualified under CDBG formula A or formula B (formula A emphasizes poverty and formula B emphasizes age of housing). We restricted our selection of nine varied cities to HUD's sample so that we could address the reasonableness of HUD's procedures for projecting lower income benefit. In selecting our nine case study cities, we considered the characteristics HUD used to stratify its sample and considered the related factors of population; per capita grant; and an economic distress score developed for another HUD grant program, the Urban Development Action Grant Program (UDAG).

By selecting from the HUD 200-city sample, we eliminated the possibility of doing field work at any urban county entitlement grantee. Counties cannot easily be evaluated with entitlement cities because of differences in structure and program operation.

The following table shows our selected cities and their key characteristics:

Table 1Key Characteristics of Selected Cities (note a)

	<u>1980 grant</u> (millions)	<u>1976</u> <u>population</u> (thousands)	<u>Per</u> <u>capita</u> <u>grant</u>	<u>Formula</u> <u>A or B</u> (note b)	<u>1981 UDAG</u> <u>distress score</u> <u>-1 to 6</u>	<u>Central/</u> <u>noncentral</u>
Atlanta	\$15.1	426	\$35.42	B	5	Central
Babylon	2.5	206	12.10	A	2	Noncentral
Bayonne	2.3	74	31.68	B	4	Noncentral
Buffalo	24.2	400	60.59	B	6	Central
Greenville	2.0	58	34.33	B	4	Central
Los Angeles	56.9	2,744	20.72	A	3	Central
Nashville	8.5	455	18.60	A	1	Central
Sacramento	5.1	262	19.40	A	2	Central
Santa Monica	1.5	92	16.78	A	3	Noncentral

a/Although Babylon is incorporated as a town government, it is treated as a city in the CDBG entitlement program.

b/Cities are funded according to the formula under which they show the greatest need and therefore qualify for the greatest grant. Formula A emphasizes poverty and formula B emphasizes age of housing. See sec. 106 of title I of the Housing and Community Development Act of 1974, as amended.

Table 2 is a simple matrix that divides our nine selected cities into cells for two of the key characteristics.

Table 2

Matrix of Selected Cities by Allocation Formula

Central/Noncentral Characteristics

Allocation Formula (note a)

	A	B
Central cities	Los Angeles, Calif.	Atlanta, Ga.
	Nashville, Tenn.	Greenville, S.C.
	Sacramento, Calif. <u>b/ 35</u>	Buffalo, N.Y. <u>b/ 33</u>
Noncentral Cities	Santa Monica, Calif.	Bayonne, N.J.
	Babylon Town, N.Y. <u>b/ 20</u>	<u>b/ 12</u>

a/See footnote b on table 1 about formulas.

b/The percentage of the total universe of entitlement cities that have same characteristics.

The above matrix shows that the nine cities we selected represent a cross section of possible types when classified as central or noncentral (suburban) cities by the formula which gives the city the largest grant. As shown in the table, the percentages for all entitlement cities by cell approximate the proportions in which our selected cities fall into the appropriate cells. The original CDBG program formula (A) for allocations to entitlement cities is based on population, overcrowded housing, and poverty (double-weighted). When the original formula system was to be fully implemented (in the sixth program year) by phasing out the hold-harmless grant amounts, the more seriously distressed communities faced deep cuts. The 1977 amendments adopted a dual formula system, adding a second formula (B) that was based on the age of housing (as a proxy for community age), poverty, and growth lag. The second formula, which took effect in the fourth year, greatly increased the allocations of funds to many jurisdictions, particularly the declining central cities of the Northeast and Midwest.

The nine entitlement grantees we selected were under the jurisdiction of 8 of the 40 HUD area offices. They are Newark, New York City, Buffalo, Atlanta, Knoxville, Columbia, Los Angeles, and San Francisco. We feel the eight area offices reviewed

provided a reasonable representation of all area offices based on factors such as workload, staff experience, and geographic considerations.

To provide an effective basis for measurement and comparison, our work at all grantee and area office locations was preplanned and executed consistently. Our detailed work at the grantees was based on a review of five projects that were consistently and methodologically chosen at each grantee. For each selected grantee we listed dollar amounts planned for each activity on sixth program year applications. The amounts were divided into five major activity groups: rehabilitation and preservation, public facilities and improvements, acquisition/clearance, public services, and economic development. We selected the median dollar amount activity from each of five groups. Any multiactivity project that would have had two activities selected under this procedure had one activity replaced with another that was next closest to the median.

Detailed field work was conducted only on the activity for which a multiactivity project was chosen. These activity selection procedures were followed at each grantee to choose 45 of the projects we reviewed. ^{1/} Where a grantee did not have any activities in one or more categories, substitutions were made from the available categories with activities having the largest total value. After selections were made and it was found that the grantee had an insignificant amount of spending on the activity, the fifth-year version of the same activity was substituted.

Because projects/activities were divided into two distinct groups, areawide and direct benefit, two separate procedures for checking beneficiary claims during field work were used. In contrast to areawide benefit, direct benefit activities require some type of application usually with income-based eligibility requirements. Examples are rehabilitation loans and some public services. Our detailed work on direct benefit activities included the use of a standard data collection instrument for each case and a summarization of our findings on the grantees' beneficiary claims. Also, we reviewed the cities' income and/or asset verification procedures and documentation of their use, if any. For all projects, direct and areawide, efforts were made to examine data supporting the grantees' benefit claims and to interview interested persons, such as residents of project areas and heads of local civic groups. We also visited all selected projects to verify locations and existence of work and gather any observational information.

^{1/}To expand the universe of direct benefit projects reviewed, in four projects we supplemented the above selection process in multiactivity projects by adding an associated direct benefit activity, usually rehabilitation.

THE CITY OF GREENVILLE, SOUTH CAROLINA

JESSE L. HELMS

July 8, 1982

OFFICE OF THE MAYOR

Mr. Henry Eschwege, Director
Community and Economic Development Division
Washington, DC 20548

Re: B-207667

Dear Mr. Eschwege:

We have reviewed your draft report entitled "DETERMINING THE EXTENT OF LOWER INCOME BLOCK GRANT BENEFICIARIES--A LEGAL MANDATE NOT ADEQUATELY ADDRESSED BY HUD" pertaining to the City of Greenville, South Carolina.

The information contained in the Draft Report indicates to us that the instructions with the Grantee Performance Report are not as clear and understandable as perhaps they could be. In our particular case, three professionals, with a combined work experience with HUD programs of forty years, reviewed the instructions and agreed as to what they were saying. Obviously this understanding was in error.

The most glaring problem from our perspective is the "local" method of determining how data on family incomes are to be gathered and recorded. In Greenville we have made a rather concerted effort to determine the income characteristics of our program beneficiaries and our program areas. We did not and cannot rely on census tract data for usable information. The only way we can use census information is if we have full census data by city blocks and enumeration districts rather than by tracts. In the City of Greenville we find one census tract containing some of the most expensive single family housing in the City of Greenville, occupied by families with incomes well in excess of \$100,000 annually, while across a six lane street we find a pocket of poverty containing some of the poorest single family housing and lowest income families in our community. This kind of situation, which is common in smaller communities, completely eliminates the valid usage of census tract information.

We are not taking exception to the information reported for the City of Greenville, rather we stress the failure of adequate measurement criteria available to both you and us.

We hope that comments such as ours will lead to proper and adequate measurement standards so that we may all understand the complete impact of the Community Development Block Grant Program on various income groups and areas.

Sincerely,


Jesse L. Helms, Mayor

JLH:mb

POST OFFICE BOX 2207 • GREENVILLE, SOUTH CAROLINA 29602 • 206 SOUTH MAIN STREET • TELEPHONE (803) 242-1250

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY**

July 16, 1982

Mr. Henry Eschwege, Director
Community and Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in response to your letter dated July 1, 1982, to Mayor Phillip Isenberg. We appreciated the opportunity to review and comment on the excerpt from GAO's draft report "DETERMINING THE EXTENT OF LOWER INCOME BLOCK GRANT BENEFICIARIES -- A LEGAL MANDATE NOT ADEQUATELY ADDRESSED BY HUD" which pertains to the City of Sacramento.

The incorrect low income definition utilized by the City of Sacramento has been rectified. The City has corrected the errors in the 1980/81 Grantee Performance Report, and is utilizing the proper definition.

In general, the City does not have any comments other than the we feel fortunate to participate in this study because it will assist in our overall program performance in future years.

If you have any questions, please feel free to contact the City of Sacramento.

Sincerely,

A handwritten signature in black ink, appearing to read 'Thomas V. Lee'.

THOMAS V. LEE
Planning and Evaluation Coordinator

TVL:jr

cc: Walter J. Slipe
William H. Edgar

11-B23



CITY OF
SANTA MONICA
CALIFORNIA

OFFICE OF THE CITY MANAGER 393-9975, ext. 301

1685 Main Street, Santa Monica, California 90401

August 23, 1982

Mr. Henry Eschwege
United States General Accounting Office
Community & Economic Development Division
Washington, D.C. 20548

Dear Mr. Eschwege:

This letter is to acknowledge receipt of the GAO draft report entitled "Determining the Extent of Lower Income Block Grant Beneficiaries--A Legal Mandate Not Adequately Addressed by HUD." My staff and I have carefully reviewed the information pertaining to the Santa Monica CDBG Program and have developed the following comments:

Direct Benefit Activities - While the City of Santa Monica did not conduct direct benefit activities during the program year reviewed, the current CDBG Program includes a number of such activities including a residential security installation program and residential rehabilitation program. The design of each program includes procedures to ensure accurate calculation of percentage of direct activity beneficiaries and ongoing monitoring procedures of the nonprofit organizations conducting these activities. The City does not interpret the GAO note that Santa Monica did not conduct direct benefit activities in that year as a deficiency but merely an explanation of why direct activity beneficiaries could not be assessed for the purposes of the report.

Areawide Benefit Activities - The report indicates that three Santa Monica projects initially classified as "citywide" projects should have been classified as "areawide." As noted in the report, City staff was instructed by the HUD Regional Office to use the "citywide" classification which therefore eliminated the need to provide areawide beneficiary data. A revised Grantee Performance Report was submitted on August 27, 1981 which included the revised classification of the three projects to areawide and also included statistics reflecting that 59 - 74% of the projects' beneficiaries were lower income persons. Although GAO did not analyze this revised data, the City is confident that the revised information indeed reflects the degree to which the areas' lower income residents benefitted from the projects.

Mr. Harry Eschwege

-2-

August 23, 1982

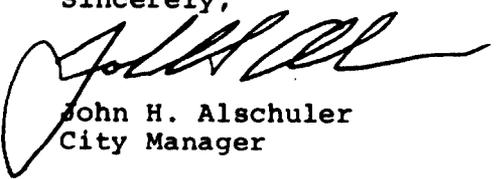
Table II of the report indicated that the City did not report a lower income percentage for Project 79-508 (Architectural Barrier Removal). As indicated in the report, HUD regulations (570.302(d)iv) state that such projects "may be assumed to principally benefit low- and moderate-income persons in the absence of substantial evidence to the contrary." Because of the nature of the project (restroom renovation at the Main Branch of the Santa Monica Library) there is no evidence to indicate that this facility does not provide substantial benefit to lower income residents of Santa Monica, in particular lower income disabled residents. The Main Branch is located in an area with large numbers of low-income senior citizens who, in addition to the community at large, utilize the facility.

Table II also indicates that no data was developed to support or dispute the "citywide" claim for Project 79-510 (Expansion of Santa Monica's Senior Center). Records of the Recreation and Parks Department indicates that users of the Center come from all areas of the City as indicated on membership rosters as well as from memberships of those senior groups using the facility.

We were pleased to find that the review of Santa Monica's program did not indicate any deficiencies in its ability to serve low and moderate income residents and that GAO had included explanations on those "definitional" problems identified. We are proud of our CDBG program and the extent to which we serve low and moderate income residents. City staff will continue to implement procedures to ensure that documentation of this impact is available for review.

If you have any additional need for information, please feel free to call me at (213) 393-9975, Ext. 301.

Sincerely,



John H. Alschuler
City Manager

JHA:BJS:sd

DOUGLAS S. FORD
GENERAL MANAGERCOMMUNITY DEVELOPMENT
DEPARTMENT
218 W. 6TH STREET
LOS ANGELES 90014
(213) 488-4882TOM BRADLEY
MAYOR

JUL 23 1982

Mr. Henry Eschwege, Director
United States General Accounting Office
Community And Economic Development Division
Washington, D.C. 20548

REVIEW OF DRAFT REPORT-GENERAL ACCOUNTING OFFICE (GAO)

The Mayors Office of the City of Los Angeles has referred the draft report, "Determining the Extent of Lower Income Block Grant beneficiaries - a Legal Mandate Not Adequately Addressed by Housing and Urban Development (HUD)" to the Community Development Department (CDD) for review. Staff and I have discussed our observations with Mr. John Minnich of your office. Our concerns are discussed below.

Page 8, - Table I

The study design used by the General Accounting Office (GAO) separated rehabilitation activity conducted within the Neighborhood Strategy Area (NSA) from the activity conducted in the area surrounding the NSA. The latter is considered a rehabilitation area. This distinction is not made by the City's operating staff.

On Table 1 of the draft report, the figures presented for two projects describe rehabilitation activity in the rehabilitation area only. From the City's perspective our rehabilitation effort is stronger in the geographic area defined by the NSA.

The figures in the table should be exchanged to reflect either the rehabilitation activity in the NSA only, or the combined activity in the NSA and rehabilitation areas, since in practice this is a single project.

For each of the three projects listed on Table 1, Echo Park Child Care, West Adams HOME, and Cypress Park HOME, the City used actual beneficiary data. In the case of the two rehabilitation activities, to the count of actual beneficiaries was added an census estimate figure only for unit vacancies and for those small number of tenants who refused to give information about their household size, ethnicity and income.

On Table 1 the reason for the difference between the City's figures and those of the GAO should be changed. Suggested language is "the City used actual beneficiary data but added an estimate for vacant units and tenants without data."

[GAO COMMENT: Table I now reflects information on all housing rehabilitation activities in the two Neighborhood Strategy Areas. The "reason for difference" note on the table now reflects that the city used census along with actual beneficiary data for estimating tenants in rehabilitated housing.]

Mr. Henry Eschwege

- 2 -

Page 9, Los Angeles and Buffalo used Census to estimate direct beneficiaries.

It is reiterated that in both its public services and rehabilitation programs the City does gather and analyze information from the activity's actual beneficiaries. The use of estimates occurs only when the direct data collection procedures fail as in the case of unit vacancy or the inability to obtain information from a tenant. Also, although the City agreed to use the data collected by the GAO auditors for the sixth year GPR, we are hesitant to commit that all future reporting will exclude the use of estimate data for units when tenant information is unavailable.

It is requested that the first paragraph on page nine be revised to reflect our concerns. Suggested language is included in Attachment A.

[GAO COMMENT: The paragraph now includes information on the city's use of both census data and actual beneficiary data to calculate direct beneficiaries in the sixth program year.]

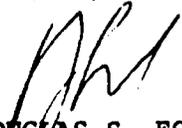
Page 19 and 20

In comparing the report prepared by the field staff with that prepared by the Washington staff, the City is a concerned because a significant statement from the first report was omitted-that is "Community Development Department (CDD) estimated 52 percent of the beneficiaries were low- and moderate-income persons; which appears reasonable to use." It should be noted that the 52 percent was based upon the project's emphasis upon service to 11 businesses in low- and moderate-income neighborhoods. The absence of the reference leaves the distinct impression that the program conclusively did not principally benefit lower income persons. No figure was used in the GPR because the City had considered the project area-wide in its benefit scope while the GAO auditors and the local HUD Office felt some more direct measure should be used. The nature of this measure has been under negotiation with the local HUD Office.

We request that the statement omitted from the field report be added to the final report.

[GAO COMMENT: As stated in the report neither the city nor the contractor had records to show that any businesses served by the economic development project actually provided jobs or otherwise principally benefited the lower income residents of the census tracts. Consequently, the report remains unchanged.]

The opportunity to comment on the draft final is appreciated. If you wish further information call me at (213) 485-4682 or Romerol Malveaux at (213) 485-2956.



DOUGLAS S. FORD
General Manager

[GAO NOTE: Some page references have been changed to correspond to the final report.]

DSF:CD:RM:mg

ATTACHMENT A

Although Los Angeles was late with its Grantee Performance Report (GPR) for the sixth program year and had not submitted it to Housing and Urban Development (HUD) at the time of our review, worksheets for the document showed that the City based its rehabilitation beneficiary data on actual beneficiary data and added an estimate figure to account for vacant units and units where tenant information could not be obtained. We calculated beneficiary levels based only on the actual recipient information. The City adopted our percentages of lower income benefit for inclusion in the GPR that was still being prepared when our field work ended. We learned that the City had used actual beneficiary data supplemented by estimate figures for reporting some other direct projects in the sixth year annual GPR. Los Angeles agreed to exclude the estimate figures from its actual beneficiaries for sixth year GPR reporting. The direct benefit activities we reviewed in Los Angeles consisted of two housing rehabilitation programs and a public service providing child care services.

RAYMOND C. ALLMENDINGER, Supervisor



(Founded in 1872)

Community Development
(516) 957-3050
(516) 661-6200

Town of Babylon

200 East Sunrise Highway, Lindenhurst, L.I., N.Y. 11757

July 8, 1982

Mr. Henry Eschwege, Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Thank you for sending us a draft copy of the G. A. O. report entitled "Determining the Extent of Lower Income Block Grant Beneficiaries - A Legal Mandate Not Adequately Addressed by HUD".

We feel that there are several inaccuracies concerning the Town of Babylon Community Development Block Grant program and suggest that changes be made to conform with the more accurate information attached.

Please call Sibyl Mizzi or Paul Fink at 516 - 661-6200 if you have any further questions.

Very truly yours,

Raymond C. Allmendinger
S.C.

RCA:bs

Mr. Henry Eschwege
U. S. General Accounting Office
pg. 2

July 8, 1982

"Our review of incomes reported on applications showed that 14 of the 131 beneficiaries were from families of handicapped applicants who had family income above the applicable Section 8 family income limit." (p. 12)

Of the 14 families of handicapped applicants, 7 were within Very low Section 8 limits, 3 were within the median income limits for Suffolk County as calculated by the Suffolk County Development Corporation. Only 4 families had incomes exceeding these income guidelines (see list attached) and could not be considered low/mod benefit. (Appendix I)

[GAO COMMENT: The information provided in the appendix to the city's letter covers a different time period and different applicants than the group we identified during our review.]

"Nevertheless, consultant said that in the future they would use census tract data to calculate the % of lower income persons benefiting from Babylons areawide projects." (p. 18)

This statement is not quite correct. The Town of Babylon CD program discussed the use of enumeration districts rather than CT as a whole with HUD N. Y. area office officials and permission to use the smaller jurisdictions as a base was granted. If the area office changes its mind and requires the use of CT data instead, then Babylon will adjust its calculations accordingly.

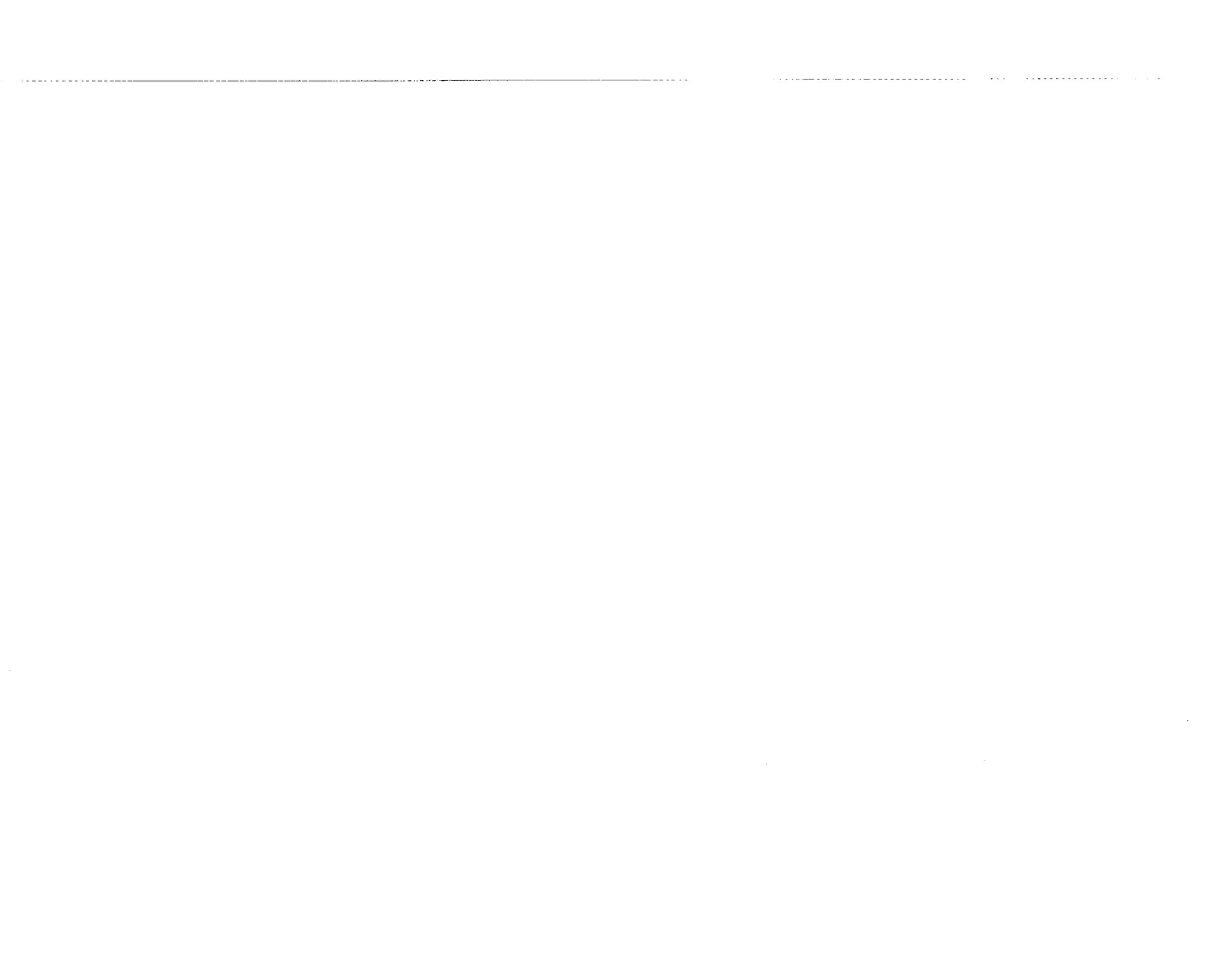
[GAO COMMENT: The paragraph now reflects the information on the city's future use of enumeration district data.]

"HUD regulations requires that cities have criteria for designating slum and blight areas and that cities maintain evidence in their files showing that areas in which Community Development Block Grant work is planned meet these locally set criteria". (p. 22)

There are two criteria for the removal of slums and blight. Sec. (e) 1 and 2 - Sec. (e) 1 is the criteria quoted in the report. The Town of Babylon removal of slums & blight for 1979 and 1980 projects qualified under Sec. (e) 2 - "A project designed to eliminate detrimental conditions which are scattered or located outside slum or blighted areas, etc. - see (attached - Appendix II). In 1981 the Town of Babylon Community Development Block Grant program adopted a local criteria for slums and blight and 1981 and 1982 projects qualify under Sec. (e) 1.

[GAO COMMENT: The paragraph now describes the provision under 24 CFR 570.302 covering scattered-site activities which prevent or eliminate slums or blight. However, the city's files contained no evidence that the scattered activities eliminated conditions harmful to public health and safety, as required by the regulations. Consequently, the point that the city's files did not support their compliance with the regulations remains unchanged.]

(384801) [GAO NOTE: Some page references have been changed to correspond to the final report.]



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