

March 2013

COMMUNITY
DEVELOPMENT
BLOCK GRANTS

Reporting on
Compliance with Limit
on Funds Used for
Administration Can Be
Improved



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Why GAO Did This Study

CDBG is the federal government's principal community development program. In fiscal year 2012, Congress provided CDBG with approximately \$3 billion for activities such as housing, economic development, and neighborhood revitalization. While a provision reducing the amount grantees can use for administration was considered but not enacted, GAO was required to examine grantees' use of administrative funds up to the allowed 20 percent of program funds. This report discusses (1) the types of activities subject to the 20 percent limit and grantees' use of their administrative funds, (2) trends in funds available to grantees for CDBG administration and the impact of these trends on grantees' administrative spending, and (3) HUD's reporting on compliance with the limit. GAO analyzed HUD data and program information, reviewed federal internal control standards, and interviewed HUD headquarters and field office staff and organizations representing grantees. GAO also interviewed 12 grantees selected based on grant size and location, among other things, to obtain a range of experiences.

What GAO Recommends

GAO recommends that HUD develop a process for annually reporting on compliance across the program with the statutory limit on the use of funds for administration. In its response, HUD noted that it was not required to assess cumulative compliance with the limit. As discussed in the report, an annual report that summarizes individual grantee compliance is essential to effective monitoring.

View [GAO-13-247](#). For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Reporting on Compliance with Limit on Funds Used for Administration Can Be Improved

What GAO Found

The annual appropriation for the Community Development Block Grant (CDBG) program allows grantees to use up to 20 percent of program funds for planning, management, and administration (collectively referred to as "administration"). Specifically, grantees may use these funds for a range of activities, including general management, oversight, and coordination; fair housing activities; preparing community development plans; and policy planning. The Department of Housing and Urban Development (HUD) uses broad categories, such as "general program administration" and "fair housing activities," to record grantees' administrative expenses. According to HUD's data for the last decade, grantees primarily recorded their administrative expenses under the general program administration category, which includes staff salaries. Grantees GAO interviewed added that they also used administrative funds to cover general administrative costs such as supplies, training, and travel.

The amount available to grantees for administrative costs decreased from 2001 to 2012 by 47 percent, or about \$532 million in 2012 constant dollars, as the amount of overall CDBG funding declined. Grantees GAO interviewed reported taking various steps to address this decline, including reducing the number of CDBG staff and changing the types of projects they administered. For example, one grantee determined that it could no longer administer its housing rehabilitation program. However, the vast majority of the grantees that GAO interviewed said that reducing the statutory limit on administration would negatively impact their ability to administer and oversee CDBG-funded projects.

HUD does not routinely determine and report on compliance with the administrative limit across the program. HUD reviews financial summary reports—which contain information grantees enter in HUD's Integrated Disbursement & Information System (IDIS) and their own internal accounting systems—to determine individual grantees' compliance. Internal control guidance states that information needed to assess compliance with laws and regulations should be timely and reported in a manner that allows for effective monitoring. However, HUD managers cannot use IDIS to generate summaries of compliance with the administrative limit across the program. First, grantees are not required to save information from their own systems in IDIS. Second, when such data are saved, the information is not stored as separate data elements that can be extracted and analyzed. Rather, HUD officials must download each grantee's report and manually create a summary of compliance across the program. HUD's most recent attempt to assemble this information for a single year required a labor-intensive process that ultimately produced unreliable data. Without making changes to IDIS that allow for summaries of compliance across the program, HUD lacks the ability to monitor grantees' compliance across the program. Further, GAO's analysis of financial summary reports for program year 2010 (the most recent year available) showed that 60 percent of entitlement communities (eligible cities and counties) obligated between 15 percent and 20 percent of their funds for administration. Given these statistics, HUD could benefit from having the information it needs to determine how many grantees would be affected by reducing the administrative limit.

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Abbreviations

CDBG	Community Development Block Grant
CHDO	HOME Community Housing Development Organization
CPD	Office of Community Planning and Development
ESG	Emergency Solutions Grants
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
HOME	HOME Investment Partnerships
HOPWA	Housing Opportunities for Persons with AIDS
HUD	U.S. Department of Housing and Urban Development
IDIS	Integrated Disbursement & Information System
OMB	Office of Management and Budget

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

March 21, 2013

The Honorable Patty Murray
Chairman
The Honorable Susan M. Collins
Ranking Member
Subcommittee on Transportation, Housing and
Urban Development, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Tom Latham
Chairman
The Honorable Ed Pastor
Ranking Member
Subcommittee on Transportation, Housing and
Urban Development, and Related Agencies
Committee on Appropriations
House of Representatives

The Community Development Block Grant (CDBG) program is the federal government's principal community development program. In fiscal year 2012, Congress provided approximately \$3 billion for the program to fund housing, economic development, neighborhood revitalization, and other community development activities. Administered by the Department of Housing and Urban Development (HUD), the CDBG program provides funding to metropolitan cities and urban counties, known as entitlement communities, and to states for distribution to other communities.¹

Activities undertaken with program funds must (1) principally benefit low- and moderate-income persons, (2) aid in the prevention or elimination of slums or blight, or (3) meet urgent community development needs.

Historically, the annual appropriation for the CDBG program has included language allowing grantees to use no more than 20 percent of program

¹Entitlement communities are (1) principal cities of metropolitan areas, (2) other metropolitan cities with populations of at least 50,000, and (3) qualified urban counties with populations of at least 200,000 (excluding the population of entitled cities). Other communities must apply to states for CDBG funding because they do not qualify as entitlement communities.

funds for planning, management, and administration.² However, for 2012 the House Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies proposed to reduce the 20 percent limit to 10 percent. According to the subcommittee's report, this change was intended to direct limited funds to worthwhile community development activities and to reduce instances of waste, fraud, and abuse among CDBG grantees. In contrast, the Senate bill for HUD's fiscal year 2012 appropriations retained the traditional 20 percent limitation for administration. To resolve the different versions, the Conference Report to the Consolidated and Further Continuing Appropriations Act of 2012 included language allowing 20 percent of CDBG funds to be used for administration, as proposed by the Senate, but directed us to review how communities used these funds.³ In response to this mandate, this report discusses (1) the types of activities that are subject to the 20 percent limit on administration and the ways in which grantees have used their administrative funds, (2) trends in funds available to grantees for CDBG administration and the impact of these trends on grantee spending, and (3) HUD's reporting on grantee compliance with the limit.

To identify and describe the types of activities subject to the 20 percent limit on administration, we examined and summarized relevant statutes, HUD regulations, and Office of Management and Budget (OMB) guidance. We also interviewed HUD officials and a purposive, nonrandom sample of 12 CDBG grantees: the cities of Albany, Georgia; Antioch, California; Bowling Green, Kentucky; Houston, Texas; Newark, New Jersey; Oshkosh, Wisconsin; and Tustin, California; the counties of Northampton in Pennsylvania and Oakland in Michigan; and the states of Alaska, North Carolina, and Ohio. We selected these grantees on the basis of factors such as grant size, percentage of funds used for administration, and geographic dispersion to obtain a range of experiences. To determine how grantees had used their administrative funds, we interviewed HUD officials, reviewed the selected grantees' annual reports to HUD, and reviewed and summarized relevant data from HUD's Integrated Disbursement & Information System (IDIS).⁴ We

²HUD refers to "planning, management, and administration" as general administration. For purposes of this report, we will use the term "administration."

³H. R. Conf. Rep. No. 284, 112th Cong., 1st Session (2011).

⁴IDIS is a management information system that contains CDBG funding data and reported expenditures, among other things.

determined that these data were sufficiently reliable for analyzing different administrative spending categories. We also reviewed HUD's guidance and training manuals to determine the extent to which HUD was providing guidance on use of funds for administration.

To determine the availability of CDBG funds for administration, we interviewed HUD officials and analyzed CDBG allocation data for 2001 through 2011. We also interviewed the selected grantees, HUD officials, and representatives from national organizations representing CDBG grantees to obtain their views on the 20 percent limit's impact, if any, on the types of activities grantees chose to fund. To determine HUD's ability to report on grantees' compliance with the 20 percent limit, we interviewed HUD officials and the selected grantees. We then compared HUD's reporting capabilities with internal control standards for the federal government. In addition, we analyzed financial summary reports on grantee compliance with the administrative limit for program year 2010, the most recent year for which such reports were readily available. We found these reports to be reliable for commenting on compliance with the limit.

We conducted this performance audit from July 2012 to March 2013 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. More information on our scope and methodology is contained in appendix I.

Background

The Housing and Community Development Act of 1974 created the CDBG program to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons. Program funds can be used for housing, economic development, neighborhood revitalization, and other community development activities. After funds are set aside for special statutory purposes, the annual CDBG appropriation is allocated to entitlement communities and states. Entitlement communities are principal cities of metropolitan statistical areas, other metropolitan cities with populations of at least 50,000, and qualified urban counties with a population of 200,000 or more (excluding the populations of entitlement cities). Entitlement communities may carry out activities directly or may award funds to subrecipients to carry out agreed-upon activities. States distribute CDBG funds to nonentitlement localities not qualified as

entitlement communities. In fiscal year 2012, Congress appropriated about \$3 billion for the CDBG program, \$60 million of which was set aside for Native American tribes. The remainder (about \$2.9 billion) was allocated to entitlement communities, states, and insular areas.⁵

Grantees can use CDBG funds for 28 eligible activities. For reporting purposes, HUD classifies the activities into eight broad categories—acquisition, administration and planning, economic development, housing, public improvements, public services, repayments of section 108 loans, and “other” (including capacity building for nonprofit organizations and assistance to institutions of higher learning).⁶ Some of the activities that can be funded, such as loans for housing rehabilitation, generate program income for grantees that must be used to fund additional activities.⁷ There are statutory limitations on the amounts that grantees may use in two specific areas. According to provisions in annual appropriations laws, grantees may use up to 20 percent of their annual grants plus program income on administration. Grantees may also use only up to 15 percent of their annual grant plus program income on public service activities such as job training and crime prevention activities.⁸ Entitlement communities comply with these requirements by limiting the amount of funds they

⁵The four insular areas are American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands.

⁶Congress established the section 108 program in 1974 as part of the CDBG program. This program allows communities to borrow against their current and future CDBG allocations to fund large-scale housing rehabilitation and community and economic development projects.

⁷Program income is gross income directly generated from the use of CDBG funds. Examples of program income include proceeds from the disposition of real property purchased or improved with CDBG funds and payments of principal and interest on loans made using CDBG funds.

⁸By law, entitlement communities that used in excess of 15 percent of CDBG funds received for public service activities in fiscal year 1982 or 1983 are allowed to continue to use the higher of the actual dollar amount or percentage of assistance in either of those years. Due to this provision, a total of 41 entitlement communities are allowed to use more than the 15 percent they would have been allowed if they were subject to the limit.

obligate for these activities during the program year, while states limit the amount they spend on these activities over the life of the grant.⁹

HUD has provided grantees with a variety of training classes, written guidance, and technical assistance to help them determine which activities are considered administrative and demonstrate compliance with the 20 percent administrative limit. For example, HUD has prepared a training manual that includes guidance on eligible administrative activities and instructions for showing compliance with the administrative limit. HUD has also developed video training modules on components of the CDBG program, including administrative planning and financial management. Within these materials, HUD has also provided links to relevant OMB guidance on determining program administrative costs, cost allocation, and indirect costs as well as links to relevant HUD regulations.

The administrative activities subject to the 20 percent limit are separate from “activity delivery costs” that are related to carrying out specific CDBG activities. Activity delivery costs, such as staff and overhead costs linked directly to an eligible CDBG activity (e.g., economic development, housing rehabilitation), are not considered administration and are therefore not subject to the 20 percent limit. For example, if a grantee’s employees underwrite economic development loans that will be made with CDBG funds, the portion of their salaries spent on this function can be treated as costs of carrying out the economic development activity. Other costs that are considered activity delivery costs include the costs of printing brochures advertising the availability of housing rehabilitation loan funds and staff costs of housing rehabilitation specialists performing work write-ups and inspecting completed construction work. There is no statutory limit on the percentage of CDBG funds that may be used for

⁹For states, the expenditures subject to the 20 percent limit on administration are the sum of the states’ own administrative costs and the administrative costs of nonentitlement communities. A state may use CDBG funds to pay its own administrative costs of up to \$100,000 and must match its administrative costs in excess of \$100,000 on a dollar-for-dollar basis. In addition, states may use CDBG funds for technical assistance, such as to improve nonentitlement communities’ reporting capabilities. Unlike funds used for a state’s administrative costs, funds used for technical assistance are not considered when calculating compliance with the 20 percent limit and do not need to be matched. However, CDBG funds used to pay a state’s administrative costs cannot exceed \$100,000 plus 3 percent of the state’s CDBG grant plus program income, and technical assistance cannot exceed 3 percent of the state’s CDBG grant plus program income. In the aggregate, these two cannot exceed \$100,000 plus 3 percent of the state’s CDBG grant plus program income.

eligible activity delivery costs, but they must be necessary and reasonable costs.

Grantees must submit to HUD a strategic plan that addresses the housing, homeless, and community development needs in their jurisdictions every 3 to 5 years. This plan, known as the consolidated plan, covers CDBG and three other formula grants that the grantee may receive—the HOME Investment Partnerships (HOME) Program, the Emergency Solutions Grants (ESG) Program, and the Housing Opportunities for Persons with AIDS (HOPWA) Program.¹⁰ Annually, entitlement communities must submit an action plan that identifies the activities they plan to undertake to meet the objectives in their strategic plans.¹¹ In their annual action plans, states describe their method for distributing funds. At the end of each program year, grantees must submit to HUD an annual performance report detailing progress they have made in meeting the goals and objectives outlined in their strategic and action plans and their compliance with statutory limits. HUD staff use detailed checklists to review recipients' strategic and annual action plans and annual performance reports.

HUD's Office of Community Planning and Development (CPD) administers the CDBG program through program offices at HUD headquarters and field offices located throughout the United States. Among other strategies, HUD field staff are to use data and reports generated through IDIS to monitor CDBG funds. Implemented in fiscal year 1996, IDIS is a management information system that consolidates planning and reporting processes across HUD's four formula grant programs. Grantees are to use this system to enter information on their plans, establish projects and activities to draw down funds, and report accomplishments. Although it contains data on reported expenditures, IDIS is a reporting system and not an accounting system. Grantees are expected to use their own accounting systems in addition to IDIS to

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

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

ensure proper management of funds. Information that grantees enter in IDIS is used to generate financial summary reports, which contain information on the CDBG funds available and expenditures incurred, including the percentage of funds used for low- and moderate-income persons, public services, and administration.

The Administrative Limit Covers a Range of Activities

As previously noted, grantees may use no more than 20 percent of the CDBG grant and program income received for a range of activities related to program administration. Examples of eligible administrative activities include

- managing, overseeing, and coordinating the CDBG program;
- providing local officials and citizens with information about the CDBG program;
- conducting fair housing activities;
- preparing reports and other HUD-required documents;
- preparing comprehensive plans;
- preparing community development plans;
- developing functional plans for housing, land use, urban environmental design, and economic development; and
- providing policy planning.¹²

IDIS has 10 broad categories, or matrix codes, for recording administrative expenses (see table 1).¹³ For example, grantees are to use the general program administration code to report overall program administration, including salaries, wages, and related costs of grantee

¹²The regulations outlining eligible planning and administrative costs for entitlement communities are found at 24 CFR Secs. 570.205 and 570.206, respectively. Similar regulations for states are found at 24 CFR Sec. 570.489(a)(3).

¹³Entitlement communities use eight of these codes, and states can also use two additional codes that were introduced in fiscal year 2009.

staff or others engaged in program management, monitoring, and evaluation.

Table 1: IDIS Matrix Codes for Activities Subject to the 20 Percent Administrative Limit, as of January 2013

IDIS category	IDIS description
Planning	Program planning activities, including the development of comprehensive plans (e.g., a consolidated plan), community development plans, energy strategies, capacity building, environmental studies, area neighborhood plans, and functional plans.
State planning	Should be used for awards to units of general local government for which planning is the only activity, or in which planning activities are unrelated to any other activity funded as part of the grant. These are often referred to as “planning-only grants” or “planning-only activities.”
General program administration	Overall program administration, including (but not limited to) salaries, wages, and related costs of grantee staff or others engaged in program management, monitoring, and evaluation.
Indirect costs	Costs charged under an indirect cost allocation plan.
Public information	Providing information and other resources to residents and citizen organizations participating in the planning, implementation, or assessment of CDBG-assisted activities.
Fair housing activities	Fair housing activities carried out as part of general program administration.
Submission of applications for federal programs	Preparation of (1) documents that must be submitted to HUD to receive CDBG funds or (2) applications to other federal programs for community development assistance.
CDBG funding of HOME administration	CDBG funding of administrative costs for eligible HOME program activities.
CDBG funding of HOME Community Housing Development Organization (CHDO) operating expenses	CDBG funding of CHDO operating expenses for eligible HOME program activities. ^a
State administration	Costs incurred by the state to administer the CDBG program.

Source: HUD IDIS state and entitlement community manuals.

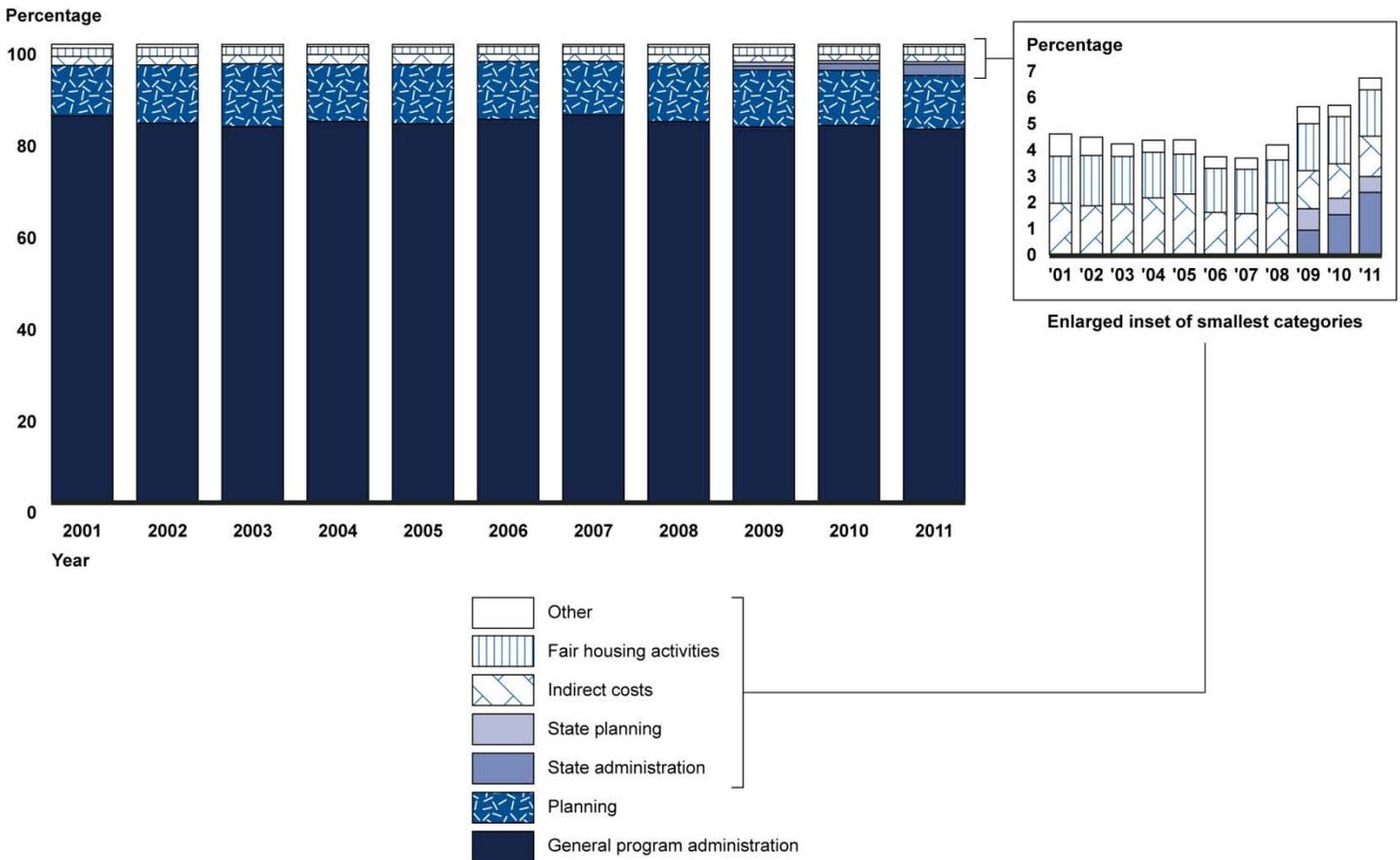
^aA HOME CHDO is a private, nonprofit, community-based service organization whose primary purpose is to provide and develop decent affordable housing for the community it serves.

IDIS expenditure data show that for each of the last 11 fiscal years, grantees have recorded more than 80 percent of CDBG administrative expenses under the general program administration matrix code, which captures salaries among other things (see fig. 1).¹⁴ Our analysis showed that the second most used matrix code (ranging from about 11 to 14 percent from fiscal years 2001 to 2011) was the planning code, which

¹⁴In fiscal year 2009, HUD introduced state planning and state administration matrix codes for state grantees to use. As a result, the states’ use of the general program administration code decreased slightly in fiscal years 2009 through 2011, but states still used it to report over 70 percent of their administrative expenses in fiscal year 2011.

captures program planning activity costs such as the development of grantees' consolidated plans. The amount charged under the remaining matrix codes ranged from about 5 percent to 9 percent.

Figure 1: Use of Administrative Matrix Codes, from Fiscal Years 2001 through 2011



Source: GAO analysis of IDIS expenditure data.

The matrix code used most often, general program administration, is broad. HUD's guidance indicates that this category is to include salaries but allows other general expenses to be charged to it. Therefore, using HUD's matrix code data to determine how much of the expenses were for

salaries is not possible.¹⁵ However, officials from all 12 grantees we interviewed told us that they primarily used their CDBG administrative funds to pay the salaries of employees who oversaw and managed the grant. They also noted that they used some funds to pay for supplies, training, travel, and planning costs.

Grantees Have Cut Staff and Projects to Adjust to Reduced Administrative Funding

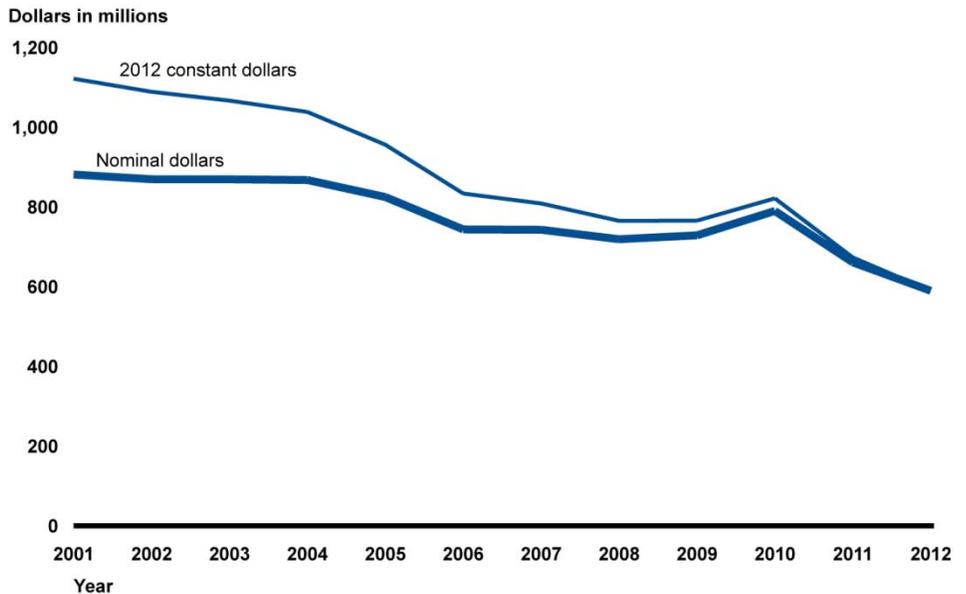
As overall CDBG allocations have decreased, the funding available to states, entitlement communities, and insular areas for administrative expenses has also fallen. Specifically, total CDBG funding for these grantees decreased from about \$4.4 billion in fiscal year 2001 to about \$2.9 billion in fiscal year 2012 (a reduction of about 33 percent). As a result, the amount of funding available to grantees from CDBG grants for administrative costs decreased by 33 percent in nominal dollars from fiscal years 2001 through 2012.¹⁶ Once adjusted for inflation, the funds available for administrative costs decreased by 47 percent.¹⁷ Specifically, the aggregate amount available to CDBG grantees for administrative costs for fiscal year 2012 was \$590 million, down from approximately \$881 million in fiscal year 2001 nominal dollars (see fig. 2). This amount represents a reduction of about \$292 million in nominal dollars, or \$532 million in fiscal year 2012 constant dollars.

¹⁵Because the administrative matrix codes in IDIS were general in nature, we reviewed the 2010 or 2011 annual performance report for the 12 grantees we interviewed to determine if they included detailed information about these expenses. Our review showed that these reports did not include such information. Specifically, although 5 of these reports included some information on the administrative tasks the grantees performed, none of the 12 reports included a section that provided detailed information on the CDBG administrative activities and their associated costs. According to HUD officials, grantees are not required to include this information in their annual performance reports. They stated that the agency collects data on administrative expenses only through IDIS.

¹⁶CDBG grantees may also use a portion of their program income to fund administration. As noted above, grantees may use no more than 20 percent of the sum of their CDBG grant and program income for administration. Because program income data were not readily available, our analysis of available administrative funding may be underestimated. In addition, not all grantees use 20 percent of their funds for administration.

¹⁷We evaluated the amount of funding available to grantees from CDBG grants for administrative costs after adjusting for the general effects of inflation using a Bureau of Economic Analysis gross domestic product price index. We expressed these data in fiscal year 2012 constant dollars.

Figure 2: CDBG Funding Available for Administrative Expenses in Nominal and Fiscal Year 2012 Constant Dollars, Fiscal Years 2001 through 2012



Source: GAO analysis of CDBG allocation data.

The 12 grantees we interviewed reported that they had taken various steps to address this reduction in available funding, ranging from reducing staff to improving record keeping to better enable them to allocate expenses.

Reducing staff. Three grantees we interviewed told us they had reduced the number of staff that administered the CDBG program. For example, officials from one grantee said that the organization had placed a moratorium on hiring CDBG staff, and representatives from another said that the organization had reduced its staff by half and hired a consultant to administer the program.

Leveraging supplemental funding sources. Officials from two grantees told us they had begun paying the salaries of existing staff with non-CDBG funding. For example, one grantee used its local funds to supplement the salaries of CDBG staff.

Limiting the number and types of projects. Three grantees told us that they had limited the number and types of projects they administered to address the reduction in funds. For example, officials from a grantee we

contacted told us that they had revisited the consolidated plan to determine which CDBG activities the city could continue to fund and had determined that it could no longer administer its housing rehabilitation program. Similarly, an official from another grantee told us that the city had reduced the number of CDBG subrecipients it administered by half and developed a strategy of selecting less administratively burdensome grants.

Some grantees also said that they selected projects based on the priorities and needs of the communities they served and not on the need to reduce administrative costs, but six indicated that the administrative limit did affect the type of projects they chose. For example, one grantee told us that it did not fund economic development projects under CDBG because it did not have the capacity to administer them. Similarly, officials from another grantee told us that funding a planning grant could depend on whether the grantee was close to the limit. In addition, an official from another grantee told us that the staff tried to manage many of their projects through larger subrecipients as a way to mitigate administrative expenses.

Sharing grant administration. An official from a grantee we interviewed told us that a group of grantees had decided to share CDBG administrative costs. According to the grantee's website, the group coordinates activities conducted by the six participating entitlement communities, which are located in the same county. Group members have jointly prepared the 5-year consolidated plan, analyzed impediments to fair housing choice, and coordinated and collaborated in the CDBG application process and monitoring practices. According to the official, joining this group has helped participating entitlement communities save millions of dollars and made program administration more efficient.

Improving record keeping. Officials from one grantee told us that they had taken steps to improve record keeping so that they could link more administrative costs to specific projects (i.e., claim more activity delivery costs) as a way of reducing administrative costs. Specifically, officials said that historically they had shared the 20 percent of funds available for administration with their subrecipients. However, in 2011 the grantee decided to end this practice because of the reduction in available administrative funding. As part of this decision, the grantee evaluated the costs each subrecipient was charging as administrative and determined that they were more aligned with the definition of an activity delivery cost. The grantee instructed the subrecipients to report these costs as activity delivery costs.

While the grantees have taken a number of steps to address declining funds available for administering CDBG as the program has gotten smaller, the vast majority of the grantees we spoke with told us that a reduction in the statutory limit on using funds for administration would have a significant impact on their ability to administer and oversee the projects they implemented with CDBG funding. Nine of the grantees we contacted said that lowering the limit would require them to reduce the number of CDBG staff or limit the number and type of projects they administered. For example, officials from a grantee said that they would be required to further reduce their CDBG staff and that the reductions would have an impact on their ability to manage and monitor the program. In addition, officials from other grantees said that a reduction might require them to cut back on their planning activities or undertake relatively large construction and infrastructure projects that carried a smaller administrative burden than projects such as mortgage assistance. Limiting the type or number of projects grantees administer could reduce some of the administrative burden of the program, but some grantees and national organizations representing CDBG grantees that we interviewed pointed out that certain fixed costs were associated with administering the CDBG program. These include preparing the required plans and reports and complying with other reporting requirements. Finally, officials from three grantees told us that grantees receiving relatively small CDBG grants might need to evaluate their ability to continue administering the CDBG program if the funds that could be used for administration were further limited. Officials explained that administering a small CDBG grant might not be cost-effective because of the program's complex reporting requirements.

HUD Does Not Routinely Assess Compliance with the Administrative Limit Across the Program

Incomplete data, technical limitations of IDIS, and reliance on field office oversight have meant that HUD has not routinely assessed compliance with the limit on the use of funds for administration across the program. A recent congressional request for HUD to provide information on compliance across the program resulted in a labor-intensive process that we determined produced unreliable results. Internal control standards state that information should be recorded and communicated in a form and within a time frame that enables management and others to carry out their internal control and other responsibilities.¹⁸ Specifically, internal control guidance states that operating information should be provided to managers so that they may determine whether their programs comply with applicable laws and regulations.¹⁹ The guidance also states that information should be presented appropriately and available on a timely basis to allow for effective monitoring and prompt action if shortcomings are found. Further, as noted previously, there has been congressional interest in reducing the limit on administration in order to direct limited funds to worthwhile community development activities and to reduce instances of waste, fraud, and abuse among CDBG grantees. We found that HUD's process for assessing compliance with the administrative limit for CDBG funds did not allow for effective monitoring across the program or for providing data that would inform Congress about the efficient use of these funds.

Annually, each grantee generates a financial summary report that contains information on the CDBG funds available and expenditures incurred, including the percentage of funds used for administration. HUD relies on this report, which shows all the information needed to complete the calculation as well as the final percentage of funds the grantee has obligated or spent on administration, to determine if grantees are within the statutory limit.²⁰ As noted previously, entitlement communities are

¹⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

¹⁹GAO, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001).

²⁰HUD officials told us that if a grantee was found to have exceeded the administrative cap, HUD field office officials determined the appropriate corrective action, which generally was to require grantees to reimburse to their CDBG program account the excess amount, using nonfederal funds. Additionally, HUD's monitoring strategy calls for its field offices to consider various risk factors when determining which recipients to review. Compliance with the administrative limit is one of many factors considered in assessing the risk level of grantees.

considered to be in compliance if their total obligations for administration during the most recent program year are no more than 20 percent of the grant and program income for that year. Meanwhile, states are in compliance if their total expenditures for administration are no more than 20 percent of each grant and program income.

Grantees generate the financial summary report using data from IDIS and make any needed adjustments based on data in their internal accounting systems. The information on expenditures and program income is available in IDIS, because grantees use it to request funds for CDBG activities they administer and report their program income. However, because compliance with the administrative limit for entitlement communities is assessed based on obligations and not just on expenditures, they may need to use additional information from their own internal accounting systems to report unliquidated obligations.²¹ For example, one entitlement community we spoke with had to enter unliquidated obligations when a planning project ultimately took less staff time than anticipated and not all of the funds obligated to that activity were disbursed during that program year. According to the grantee, the unused funds eventually were reallocated to other eligible activities. In addition, according to several grantees we spoke with, grantees may need to make other adjustments for a number of reasons. For example, grantees may need to reconcile differences between data in their internal accounting systems and information in IDIS, account for program income or administrative expenditures that were not assigned to the correct program year in IDIS or entered after the program year was complete, or correct other errors in IDIS.²² Table 2 provides an example of how compliance is determined for entitlement communities. In this hypothetical example, the grantee is in compliance with the 20 percent limit.

²¹States do not need to make this particular adjustment, because their compliance with the administrative limit is based not on obligations during a program year but on the percentage of each grant that is actually spent on administration over the life of the grant. States must generate a separate financial summary for each open grant when submitting annual performance reports. States' compliance with the statutory limit on administrative activities can be determined only when the entire grant has been spent.

²²According to HUD officials, in recent years IDIS has been changed to allow grantees to record disbursements for a completed program year up to 90 days after the close of that program year and to flag them as the previous year's disbursements. However, grantees do not always use this functionality and therefore need to enter adjustments in the financial summary report to ensure that they are accounted for in the correct year.

Table 2: Illustration of How Compliance with the CDBG Administrative Limit for Entitlement Communities Is Calculated for a Program Year

Total grant amount	\$1,000,000
Program income	50,000
Adjustment to total subject to the administrative limit ^a	0
Basis for calculating the administrative limit	1,050,000
<i>Multiplied by 20 percent</i>	<i>x 0.20</i>
Maximum dollar amount that may be obligated for administration	\$210,000
Disbursed in IDIS for administration	\$150,000
Unliquidated obligations for administration at end of current program year	35,000
Unliquidated obligations for administration at end of previous program year ^b	(20,000)
Adjustment to total obligations for administration ^c	5,000
Total obligations for administration	\$170,000
Percent of funds obligated for administration	16.19%

Source: HUD guidance.

Note: This example is for illustrative purposes only.

^aUsed by grantee only if necessary to adjust the total amount subject to the administrative limit (i.e., adding program income not reported in IDIS).

^bBy subtracting the unliquidated obligations for administrative activities that were reported in the previous program year, the grantee can avoid double-counting any disbursements made for those activities in the current program year; these are captured in the disbursements from IDIS for the current program year.

^cUsed by grantee only if necessary to adjust the amount obligated for administration (i.e., adding disbursements for administrative activities not assigned the correct year in IDIS).

While HUD can use a financial summary report to determine an individual grantee's compliance with the administrative limit, two factors limit HUD's ability to use IDIS to determine compliance across the program. First, as noted previously, the financial summary reports used to assess compliance with the limit allow for certain adjustments, but grantees are not required to save these adjustments in IDIS. In July 2006, we reported that adjustments entered in financial summary reports were not saved in IDIS.²³ We recommended that HUD centrally maintain this information, and in 2010 HUD made changes to IDIS to allow grantees to save the adjustments in the system but did not make the "save" function automatic. Instead, grantees must manually select a "save" option in order to save

²³GAO, *Community Development Block Grants: Program Offers Recipients Flexibility but Oversight Can Be Improved*, [GAO-06-732](#) (Washington, D.C.: July 28, 2006).

their changes in the system. If they do not choose this option, the information is not saved. In addition, HUD officials told us that grantees were not required to complete their financial summary reports in IDIS. In such cases, the system would not reflect any adjustments grantees made to the amount of funds they used for administration. While HUD officials do receive copies of the financial summary reports from all grantees, they do not have electronic access to the adjustments if grantees did not save the information.²⁴

Difficulties in determining compliance across the program that were associated with saving adjustments in IDIS are further exacerbated when corrections have to be made to financial summary reports. When reviewing the reports, HUD officials have found that grantees have sometimes made reporting errors. These include miscategorizing expenditures for administration, failing to report program income, and failing to enter unliquidated obligations or other adjustments. HUD allows grantees to revise the information in IDIS or on their financial summary reports if such errors occur. However, if a grantee makes any changes to the report and does not save the adjustments in IDIS, the updated report that HUD officials download will not reflect the actual percentage of funds used for administration.

Second, HUD does not maintain the necessary information in an easily accessible format and therefore has no simple way to monitor or report on compliance with the administrative limit across the program. Currently, each financial summary report that a grantee submits is saved as a separate document in IDIS. The adjustments made to calculate compliance are not separate data elements in IDIS that can be extracted and analyzed. Rather, the information is contained only in the individual reports. As a result, HUD officials must review each individual financial summary report to determine grantees' compliance with the limit. To report on compliance with the limit across the program, they must compile all of these reports and manually create a summary. HUD undertook such an exercise in 2011 in response to a congressional request to report on compliance across the program with the statutory limit on funds used for administration. HUD officials told us that staff at HUD's field offices went through a laborious process of compiling a database of grantees' financial

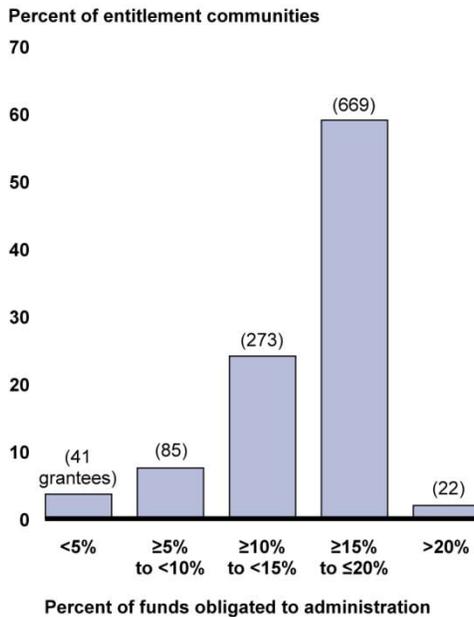
²⁴Not all compliance calculations require adjustments.

summary reports for a single program year (2010) and manually entering the percentage that each grantee used for administration.

For the purposes of this report, we also requested a summary of grantees' compliance with the statutory limit and were provided with this same database. In addition to the fact that the exercise covered only one year, we found the results to be unreliable. During our review of the database that HUD prepared for program year 2010 and the financial summary reports that supported it, our analysis revealed a number of data entry errors. Additionally, information was either missing or could not be verified based on the source reports. While a number of these errors were resolved during the course of our communications with HUD, we determined the database was unreliable for the purpose of describing grantees' compliance in program year 2010. Instead, we used the individual financial summary reports to create our own summary showing the percentages of funds used for administration that grantees reported.²⁵ Our analysis showed that in program year 2010 less than 2 percent of entitlement communities exceeded the limit on administration. Almost 60 percent obligated between 15 percent and 20 percent of their funds for administration (see fig. 3).

²⁵We created our summary using the financial summary reports attached to the database HUD provided and financial summary reports HUD provided to us during the course of our review. The reports from the database were compiled by HUD field office staff. Of the 1,134 entitlement communities included in HUD's database, we did not report on the percentage obligated for administration for 44 entitlement communities. We excluded 36 entitlement communities because the reports HUD provided were not for program year 2010, 7 entitlement communities because HUD did not provide their reports, and 1 entitlement community because HUD provided two different versions of the report. For additional information on our scope and methodology, see appendix I.

Figure 3: Percentage of CDBG Funds Entitlement Communities Obligated for Administration, Program Year 2010



Source: GAO analysis of entitlement communities' financial summary reports.

The financial summary reports HUD provided for states were for program year 2010 or 2011. We could not use these reports to describe state grantees' compliance with the administrative limit because, as mentioned earlier, each state's compliance is based on the percentage of each grant spent on administration rather than the percentage of each program year's obligations, as is the case for entitlement communities. HUD officials said that they determined compliance with the limit when grants were fully spent by using data on expenditures in IDIS to generate a financial summary report.

Although they did not provide specifics, HUD officials told us that technical changes would have to be made to IDIS in order to give it the capability to generate reports on compliance with the administrative limit across the program. They also told us that any changes would need to be approved by the IDIS Change Control Board and then assigned to contractors. They added that such changes would not be possible for at least 12 to 18 months because a number of IDIS updates were already planned for 2013. Further, they noted that the changes were unnecessary because the agency's practice was to rely on field office staff to monitor

and assess, at least annually, individual grantees' compliance with the administrative limit rather than to assess compliance across the program. Without information on annual compliance across the program, however, HUD lacks the ability to monitor the grantees across the program. As noted previously, its recent attempt to do so was labor intensive and yielded unreliable results. In addition, because our analysis showed that the majority of entitlement communities in program year 2010 obligated between 15 percent and 20 percent of their funds for administration, HUD's lack of information on compliance across the program limits its ability to determine how many may be affected by more stringent requirements.

Conclusions

A recent proposal by a House appropriations subcommittee to reduce the percentage of CDBG program funds that may be used for administration below the traditional 20 percent has highlighted the need for HUD to analyze and report on grantees' compliance with the current limit across the program. While grantees are responsible for complying with the limit, internal control guidance states that information needed to assess compliance with laws and regulations should be timely and reported in a manner that allows for effective monitoring. However, HUD faces difficulty in routinely reporting compliance across the program. Because of limitations in IDIS, HUD's recent attempt to report on grantee compliance across the program for a single year required a labor-intensive process that ultimately produced data that were not reliable. Specifically, grantees are able to save in IDIS certain information needed to determine the amount they used for administration, but they are not required to do so. As a result, these data may not be readily available to HUD officials. Furthermore, system limitations prevent HUD officials from extracting and analyzing data contained within grantees' financial summary reports that would allow HUD to assess and report on compliance across the program. Without this information, HUD cannot provide timely assurance that recipients are adhering to the limit or the number that are close to the limit. Additionally, a standard report listing the percentage that each grantee spent on administration would be a useful evaluative tool. For example, it would help determine the potential impact of any change to the statutory limit on administrative funds.

Recommendation for Executive Action

In order to demonstrate compliance across the program with the statutory limit on funds that can be used for administration, the Secretary of HUD should direct the Assistant Secretary for Community Planning and Development to develop a process for generating annual reports on compliance across the program, including making any requisite changes to IDIS to better ensure that the agency has complete and analyzable data to support such reporting.

Agency Comments and Our Evaluation

We provided a copy of this draft report to HUD for its review and comment. HUD provided written comments on the draft, which are summarized below and appear in their entirety in appendix II. HUD did not specifically state whether it agreed or disagreed with our recommendation but did provide comments on some of our findings and conclusions.

First, HUD responded to our conclusion that it lacks information across the program on grantees' compliance with the 20 percent limit on administration. HUD stated that our conclusions incorrectly implied that the agency was subject to a statutory or regulatory requirement to determine cumulative grantee obligations relative to the limit on a nationwide or programwide basis. HUD noted that determining a nationwide statistic on the percentage of funds obligated for administration would reveal nothing about individual grantee compliance. However, our recommendation would not require HUD to determine cumulative obligations or a nationwide statistic on the percentage of funds obligated. Rather, our recommendation would require that HUD generate annually the same type of compliance report it prepared in 2011 in response to a congressional request. That report included the percentage that each CDBG grantee used for administration across the program. Rather than being statutory or regulatory, our conclusion speaks to general management of the program. Specifically, internal control guidance states that information needed to assess compliance with laws and regulations should be timely and reported in a manner that allows for effective monitoring and prompt action if shortcomings are found. Such an approach would also be consistent with congressional concerns about the efficient use of CDBG funds. As a result, we clarified that we were recommending that HUD report on compliance across the program. We also added language to further stress the importance of such reporting.

Second, HUD said that it was unclear why we concluded that the database the agency compiled to report on compliance with the limit on administration in program year 2010 was unreliable. HUD pointed out that

we used the financial summary reports contained within the database to prepare our own analysis. Our draft report did note that we had determined that these financial summary reports were reliable for the purposes of describing grantees' compliance with the administrative limit. What we found to be unreliable was HUD's analysis of them. For example, as noted in the scope and methodology appendix, we found a number of data entry errors in the database field that was to indicate the percentage of funds each grantee used for administration. We also were unable to verify some of the percentages that were based on the source reports. While a number of these errors were resolved during the course of our communication with HUD, we decided that it would be more reliable to use the financial summary reports to create our own summary analysis of the percentages of funds that grantees used for administration in program year 2010. We made no change in response to this comment.

Third, HUD responded to our conclusion that almost 60 percent of entitlement communities obligated an amount that was at or close to the 20 percent limit. HUD commented that this conclusion implied that if HUD had more accurate data, it would find that some grantees were actually exceeding the 20 percent limit. Our draft report made no such linkage; instead, it noted that because our analysis showed that the majority of entitlement communities in program year 2010 were at or near the administrative limit (between 15 and 20 percent), HUD's lack of information on compliance across the program limits any type of analysis to determine how many may be affected by more stringent requirements. HUD also observed that 15 percent was not "just under" the 20 percent limit. In response to this comment, we revised how we presented these data.

Finally, HUD responded to a statement in the draft report concluding that HUD's process for assessing compliance with the administrative limit did not allow for effective monitoring across the program. HUD provided additional information about the types of reviews that its field office staff conduct annually of state grantees' compliance with the limit on administration. However, our point was related not to HUD's assessment of state grantees' compliance but to our conclusion that HUD did not routinely report on compliance across the program. As our draft report noted, HUD can determine an individual grantee's compliance with the administrative limit but has to review each individual grantee's report and manually create a summary of compliance across the program. We made no change in response to this comment.

HUD also provided a technical comment, which was incorporated into the report as appropriate.

We are sending copies of this report to appropriate congressional committees and the Secretary of Housing and Urban Development. In addition, this report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions on the matters discussed in this report, please contact me at (202) 512-8678 or by e-mail at shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



William B. Shear
Director, Financial Markets and
Community Investment

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to describe (1) the types of activities that are subject to the 20 percent limit on administration and the ways in which grantees have used their administrative funds, (2) trends in funds available to grantees for Community Development Block Grant (CDBG) administration and the impact of these trends on grantee spending, and (3) the Department of Housing and Urban Development's (HUD) reporting on grantee compliance with the limit.

To identify and describe the types of activities subject to the 20 percent limit on funds that can be used for administration, we examined and summarized relevant statutes, HUD regulations, and Office of Management and Budget guidance. We also interviewed HUD officials and a purposive, nonrandom sample of 12 CDBG grantees: the cities of Albany, Georgia; Antioch, California; Bowling Green, Kentucky; Houston, Texas; Newark, New Jersey; Oshkosh, Wisconsin; and Tustin, California; the counties of Northampton in Pennsylvania and Oakland in Michigan; and the states of Alaska, North Carolina, and Ohio. We used a database HUD field staff compiled that included the percentage that each grantee used for administration for program year 2010 as a starting point for selecting these grantees and used a two-step purposeful sampling procedure to select grantees with a range of experiences.¹ The entitlement communities list contained 1,134 grantees (including Washington D.C. and territories) and the state list contained 49 states and Puerto Rico. In the first step, we selected 47 grantees. We intentionally chose entitlement communities based on the percentages obligated for administration (less than or equal to 15 percent, 16 percent to 20 percent, and greater than 20 percent) and region of the country (Midwest, Northeast, South, and West).² From the entitlement community list, we selected three grantees within each of the 12 subgroups created by the combination of the four regions and three administrative spending levels. Applying these criteria resulted in 35 entitlement communities.³

¹For state grantees, the percentage included in the database was generally for the most recently completed grant year. Compliance with the administrative limit for entitlement communities is based on obligations in a given program year. Compliance for states is based on expenditures over the life of the grant.

²We combined the West and Pacific U.S. Census regions into one region and called it "West."

³Because there were only 2 entitlement communities in the Northeast that met our other criteria, we could select only 2 in that region, resulting in 35 instead of 36 entitlement communities.

From the state list, we randomly selected three grantees from each region for a total of 12 states. In the second step, we selected 12 grantees from the 47 entitlement communities and states initially selected. Specifically, for the 47 entitlement communities and states, we determined their fiscal year 2012 CDBG allocations and categorized them as above or below the median allocation of entitlement communities or states, based on the type of grantee. We then selected 12 grantees based on diversity in allocation amount, percentage used for administration, and region of the country. Because we used a nongeneralizable, purposive sample to select grantees, our findings cannot be used to make inferences about other grantees not in the sample. However, we determined that the selection of these grantees was appropriate for gaining an understanding of grantees' experiences with the administrative limit and that the selection would generate valid and reliable evidence to support our work. We found HUD's database reliable for selecting our sample; however, as described later in this appendix, we did not find the database reliable for the purpose of describing grantees' compliance in program year 2010.

To determine how grantees have used their administrative funds, we interviewed HUD officials, reviewed the selected grantees' annual reports to HUD for 2010 or 2011, and reviewed and summarized expenditure data from HUD's Integrated Disbursement & Information System (IDIS).⁴ Specifically, we analyzed the expenditures reported under broad categories, or matrix codes, used to record administrative expenses to determine which codes were the most often used to report the grantees' administrative expenditures from fiscal years 2001 through 2011. We assessed the reliability of these data by performing basic electronic testing of relevant data elements, reviewing HUD's data dictionaries, and interviewing HUD officials knowledgeable about the data. We determined that these data were sufficiently reliable for analyzing different administrative spending categories. We also reviewed HUD's guidance and training manuals to determine the extent to which HUD was providing guidance on funds that can be used for administration.

To determine the availability of CDBG funds for administrative expenses, we interviewed HUD officials and analyzed CDBG allocation data. Specifically, we used the programwide CDBG allocation amount to

⁴IDIS is a management information system that consolidates reporting processes across HUD's Office of Community Planning and Development programs.

calculate the aggregate amount available to grantees for administrative expenses under the 20 percent limit for each year from 2001 through 2012.⁵ To assess the reliability of these data, we reviewed information about the data and compared selected allocation amounts with other sources. We determined that the data were sufficiently reliable for estimating the amount of CDBG funding that could be available for administrative expenses. We also interviewed the selected grantees, HUD officials, and representatives from national organizations representing CDBG grantees to obtain their views on whether the 20 percent limit had affected the types of activities grantees chose to fund. The national organizations we interviewed were the Council of State Community Development Agencies, National Association for County Community and Economic Development, and National Community Development Association.

To determine HUD's ability to report on grantee compliance with the administrative limit, we interviewed HUD officials and the selected grantees about how HUD verifies and reports grantees' compliance. We then compared HUD's reporting on grantee compliance with internal control standards for the federal government. In order to describe grantees' compliance in program year 2010, we first attempted to use the database HUD had compiled that included the grantees' financial summary reports—showing the calculations used to determine compliance with the administrative limit—and the percentage that each grantee used for administration in program year 2010. According to HUD officials, the database was compiled by field office staff manually in response to a congressional request. The staff entered the percentage that each grantee used for administration, as reported in the grantee's financial summary report, and then attached the report to the database. In order to assess the reliability of the database, we compared the percentages entered in the database to the percentages in the attached financial summary reports. We found a number of data entry errors and were unable to verify some of the percentages based on the source reports. While a number of these errors were resolved during the course of our communication with HUD, we decided it would be more reliable to

⁵CDBG grantees may also use a portion of their program income to fund administrative expenses. Grantees may use no more than 20 percent of the sum of their CDBG grant and program income for administration. Because program income data were not readily available, our analysis of available funds for administration may be underestimated. In addition, not all grantees use 20 percent of their funds for administration.

use the attached financial summary reports to create our own summary of the percentages of funds that grantees used for administration in program year 2010. As previously discussed, the reports from the database were compiled by HUD field office staff. For some individual grantees, we used updated financial summary reports and information provided to us by HUD or grantees. Of the 1,134 entitlement communities included in HUD's database, we did not report on the percentage obligated for administration for 44 entitlement communities. We excluded 36 entitlement communities because the reports HUD provided were not for program year 2010, 7 entitlement communities because HUD did not provide their reports, and 1 entitlement community because HUD provided two different versions of the report. We determined that the financial summary reports we used in our analysis were reliable for the purposes of describing grantees' compliance with the administrative limit by reviewing documents describing how the reports were prepared and interviewing HUD officials about their oversight of the reports. As noted previously, we assessed IDIS data on administrative expenses, which are included in the financial summary reports, and determined they were reliable for our purposes.

We conducted this performance audit from July 2012 to March 2013 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Department of Housing and Urban Development



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

OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

FEB 21 2013

Mr. William B. Shear
Director of Financial Markets
and Community Investment
U.S. Government Accountability Office
411 G Street, SW
Washington, DC 20548

Dear Mr. Shear:

The accompanying enclosure conveys the response of the Department of Housing and Urban Development to a draft report by the U.S. Government Accountability Office (GAO) entitled: Reporting on Compliance with Limit on Funds Used for Administration Can Be Improved (GAO-13-247, engagement #250683).

The report makes the following recommendation:

In order to demonstrate programwide compliance with the statutory limit on funds that can be used for administration, the Secretary of HUD should direct the Assistant Secretary for Community Planning and Development to develop a process for generating annual reports on programwide compliance, including making and requisite changes to IDIS to better ensure that the agency has complete and analyzable data to support such reporting.

Enclosed are the comments from HUD's Office of Community Planning and Development with respect to GAO's draft report. If you have any questions regarding these comments, please contact Stan Gimont at 202-402-4559.

Thank you for your interest in the Department's programs.

Sincerely,


Yolanda Chávez
Deputy Assistant Secretary
for Grant Programs

Enclosure

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**HUD Response to GAO Draft:
*Reporting on Compliance with Limit on Funds Used
for Administration Can Be Improved*
GAO-13-247, engagement 250683)**

Thank you for the opportunity to comment on the draft report.

First, at the top of page 18 and immediately thereafter in the “Conclusions”, GAO concludes that “Without information on annual programwide compliance...HUD lacks the ability to monitor the grantees across the program.” These statements incorrectly imply that there is some statutory or regulatory basis to determine cumulative grantee obligations relative to the cap on a nationwide or program-wide basis. There is no such requirement. The requirement in HUD’s appropriation acts and in the CDBG regulations is that each grantee comply with the cap on its own. Determining, for instance, that Entitlement grantees nationwide obligated 18.5 percent of their funds in any given year for administrative costs tells us nothing about whether any individual grantee complied. Furthermore, given the fundamental differences in measuring compliance between the State and Entitlement CDBG programs, it would be impossible to determine a percentage for the CDBG program as a whole at a specific point in time.

In multiple places, GAO characterizes as “unreliable” the 2010 data that HUD collected in response to the Congressional information request: in the “What GAO Found” summary; at the bottom of page 12; at the bottom of page 16; in the middle of page 22. However, only a general explanation is provided as to why GAO concluded that information to be unreliable. For example, from page 16:

“...a number of data entry errors. Additionally, information was either missing or could not be verified based on the source reports. While a number of these errors were resolved during the course of our communications with HUD, we determined the database was unreliable....”

GAO does not provide any figures on numbers of missing or errant grantee reports. GAO then makes a statement near the top of page 3 saying:

“...we analyzed financial summary reports on grantee compliance with the administrative limit for program year...We found these reports to be reliable for commenting on compliance with the limit.”

Assuming that the report refers to GAO’s data collection/analysis process rather than HUD’s (otherwise this statement would contradict the above-cited references), it is unclear how the GAO-generated data/analysis differs from the HUD-collected data, given that both used the same grantee-generated PY2010 financial summary reports from IDIS.

2/21/2013

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In two instances, GAO notes that “60 percent of entitlement communities...obligated an amount that was at or close to the 20 percent limit.” For example, in the “What GAO Found” summary: top of page 18. The implication seems to be that if HUD had more (or more accurate) data, HUD would find that some number of these grantees actually exceeded the 20 percent cap. HUD considers it just as –if not more – likely that this is because grantees do take the 20 percent administrative cap seriously and make a conscious effort to stay within the cap without exceeding it. Furthermore, HUD notes that 15 percent is not just under the limit of 20 percent (it is a 25 percent difference). Therefore the statement that 60 percent of the grantees were just under the limit may be misleading.

Footnote 9, Page 4 reads as follows:

“For states, the expenditures subject to the 20-percent limit on administration are the sum of the states' own administrative costs and the administrative costs of nonentitlement communities. A state may use CDBG funds to pay its own administrative costs of up to \$100,000 and must match its administrative costs in excess of \$100,000 on a dollar-for-dollar basis. In addition, States may use CDBG funds for technical assistance, such as to improve nonentitlement communities' reporting capabilities. Unlike funds used for a State's administrative costs, funds used for technical assistance are not considered when calculating compliance with the 20-percent limit and do not need to be matched. However, CDBG funds used to pay a State's administrative costs and technical assistance cannot, in the aggregate, exceed 3 percent of its annual CDBG funding.”

The last sentence should be changed to read as follows:

“However, CDBG funds used to pay a State's administrative costs cannot exceed \$100,000 plus 3% of the State's CDBG grant plus program income, and technical assistance cannot exceed 3% of the State's CDBG grant plus program income, and in the aggregate, administrative and technical assistance cannot exceed \$100,000 plus 3 percent of the State's CDBG grant plus program income.”

On page 13, the first paragraph states, “We did not find that HUD's process for assessing compliance with the administrative limit for CDBG funds allowed for effective monitoring across the program.” For the State CDBG program, the field office analyzes the administrative cap in its review of the Performance Evaluation (PER) report. This review provides HUD with an effective evaluation of whether each State is in compliance with the administrative cap requirements. The review requirements for the PER, are contained in CPD Notice 11-03, and the administrative caps are covered in Attachments 4A and 5.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the individual named above, A. Paige Smith, Assistant Director; Emily Chalmers; Pamela Davidson; Anar Ladhani; John McGrail; Josephine Perez; and Deena Richart made key contributions to this report.

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