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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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B-199908

RELEASED

AUGUST 20, 1980

The Honorable William Proxmire  
Chairman, Subcommittee on  
HUD-Independent Agencies  
Committee on Appropriations  
United States Senate

*Request*

SEN00306

Dear Mr. Chairman:

Subject: [Analysis of Community Development Block  
Grant Drawdown Rates] (CED-80-137)

AGC00023

Based on your July 29, 1980, request, we reviewed the drawdown rates at which entitlement grantees are spending the Department of Housing and Urban Development's (HUD's) Community Development Block Grant funds. Specifically, we have obtained information on the following questions: What information has HUD developed on drawdown trends? What directives or procedures has HUD given its implementing offices regarding improvements in drawdown rates? Are there any Inspector General reports or other sources indicating that emphasis on faster drawdowns has contributed to inefficient spending?

In summary, we found that:

- There was a backlog of about \$3.4 billion in unspent block grant funds for formula entitlement grantees as of April 30, 1980. It could take grantees a number of years to use these funds at current and anticipated drawdown rates since new funds are being appropriated each year.
- HUD has taken a number of actions both internally and with grantees to promote faster spending of block grant funds.
- HUD's Inspector General has identified numerous instances of improper or questionable use of block grant funds and has reported that monitoring and evaluations of block grant-supported activities by HUD and grantees have been inadequate.



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He has not, however, established that the emphasis on drawdown has caused inefficient spending; this issue has not been included as a specific step in his audits.

We believe that the emphasis HUD is putting on spending block grant funds in directives and guidance to its administrators and to entitlement communities creates the potential for ineffective and inappropriate use of such funds. This emphasis seems particularly questionable in light of the HUD Inspector General's past findings on the lack of adequate monitoring by HUD of the uses of block grant funds by grantees, as well as inadequate grantee monitoring. We believe that initiatives by HUD in the area of improved monitoring can help reduce this problem, if properly implemented. These matters are discussed in more detail in the enclosure.

We are making no recommendations at this time, pending completion of the further work requested in your July 29, 1980 letter.

The information presented in this report was gathered from various offices within HUD headquarters and several of its area offices. We also held discussions with several HUD officials in headquarters and asked HUD area office personnel questions relating to individual grantees.

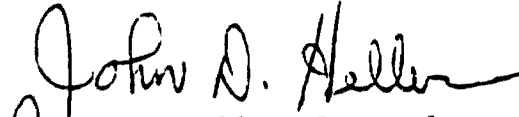
Because of the short timeframe we had to complete our review, we relied extensively on HUD's data systems for the statistical information presented in this report. In the process of reviewing HUD's statistical data we found several errors. While these errors raised questions about the validity of the information HUD uses to report drawdown rates, we do not believe they significantly alter the overall findings and conclusions presented in this report.

In commenting on a draft of this report HUD officials stated that the facts are substantially correct but added that it should not be inferred that the drawdown rate is the only measure of grantee performance. Additionally, these officials stated that HUD's current policies clearly state that drawdown is but one measure of program progress to be used in conjunction with other indicators in monitoring program performance and in making capacity and progress judgments.

B-199908

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from its issue date. At that time we will send copies to the Secretary of Housing and Urban Development and the Director, Office of Management and Budget, and make copies available to other interested parties.

Sincerely yours,

  
ACTING Comptroller General  
of the United States



ANALYSIS OF COMMUNITYDEVELOPMENT BLOCK GRANT DRAWDOWN RATESBACKGROUND

Title I of the Housing and Community Development Act of 1974 (P.L. 93-383) created a new community development funding program within the Department of Housing and Urban Development (HUD) which became effective January 1, 1975. This new program, called the Community Development Block Grant Program, replaced eight former categorical grant and loan programs under which communities applied for funds on a case-by-case basis, including urban renewal; neighborhood development program grants; open space, urban beautification, and historic preservation grants; public facility loans; water and sewer and neighborhood facilities grants; and Model Cities supplemental grants.

The block grant program provides funds to localities for a variety of community development activities designed to eliminate slums and blight, assist low- and moderate-income persons, and respond to urgent local needs. Within general guidelines established by HUD, local governments receive funding for activities they have planned and are responsible for administering.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to your July 29, 1980, request concerning the drawdown rates at which entitlement grantees are spending block grant funds, this report has three objectives:

- to provide information HUD has developed on drawdown rates and trends;
- to identify directives or procedures HUD has provided its implementing offices and to grantees regarding improvements in drawdown rates;
- to identify Inspector General reports or other sources that indicate emphasis on faster drawdowns has contributed to inefficient spending.

The information presented in this report was gathered from several different offices within HUD headquarters and several of its area offices. We also held discussions with various HUD

officials in headquarters and asked specific questions of HUD area office personnel relating to individual grantees.

Because of the short timeframe in which we had to complete our review we relied extensively on HUD's data systems for the statistical information presented in this report. Because of time constraints we could not analyze each grantee's drawdown rate by program year; therefore, we asked HUD officials to identify the monthly report on drawdowns which most accurately reflected the drawdown rate near the end of all grantees' program years. These officials told us that since most new grants are received in May or June, the report they suggested was for the period ending April 30, 1980. Accordingly, we used that report for our analysis of the national drawdown rate. This is the report which showed the highest cumulative drawdown rate in the block grant program's history.

Because of time constraints we did not conduct a detailed verification of HUD's monthly drawdown report. However, in the process of reviewing HUD's statistical data we found several errors. While these errors raised questions about the validity of the information HUD uses to report drawdown rates, we do not believe they significantly alter the overall findings and conclusions presented in this report.

DRAWDOWN RATES ARE INCREASING BUT  
BALANCES COULD CONTINUE FOR YEARS TO COME

Even at the increased spending goals HUD has established, it could take block grant recipients a number of years to use the \$3.4 billion in unspent block grant funds as of April 30, 1980. We found that the rate at which formula entitlement grantees are using block grant funds is actually lower than reflected in HUD reports because the national drawdown rate includes holdharmless 1/ jurisdictions no longer eligible for

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1/ Holdharmless entitlement communities were assured of receiving no less than their prior program levels (under the categorical system) during the first 3 years of the block grant program--fiscal year 1975 through 1977. During fiscal year 1978, two-thirds of the difference between the categorical level and the higher of the two entitlement formula levels was added to the formula amount to determine the community's total entitlement. In fiscal year 1979 only one-third of the difference was added and in all subsequent fiscal years there will be no holdharmless credits applied.

the program. HUD officials told us that the balance will never be reduced to zero because funds are appropriated yearly and communities need time to obligate and drawdown funds.

Large balance of unused funds

Under the block grant entitlement program a distribution formula is used to allocate funds annually to metropolitan cities and urban counties. Drawdown rate is the term commonly used to indicate the amount of money spent by communities. More specifically, the drawdown rate compares the amount a community has withdrawn from the U.S. Treasury to its total accumulated grant amount. Funds are drawn down from the U.S. Treasury by a letter-of-credit process on an "as needed" basis. As of April 30, 1980, about \$3.4 billion, or the equivalent of over one year's appropriation, remained in the U.S. Treasury. The following chart shows cumulative drawdown rates as of April 30, 1980, and for the 4 previous years.

Drawdown by Entitlement Communities

	<u>April 30, 1976</u>	<u>April 30, 1977</u>	<u>April 30, 1978</u>	<u>April 30, 1979</u>	<u>April 30, 1980</u>
	----- (billions) -----				
Cumulative amount approved	\$2.6	\$4.9	\$7.6	\$10.0	\$12.9
Cumulative amount of drawdown	\$ .7	\$2.2	\$4.2	\$ 6.4	\$ 9.3
Percent drawdown	27	45	55	64	72

In commenting on the report draft, the Director of HUD's Community Planning and Development Entitlement Division stated that it has never been expected that a grantee will complete all projects in the annual application within the 12 months of the program year. In addition, new approvals are made nearly every month. Thus, even under ideal conditions, he added that some level of unspent funds should be expected.

He further stated that HUD's concern about grantees' program progress has been expressed in a number of ways, including

- a review of drawdown data, which he said provides "a crude indicator of how a grantee is performing";
- requirement for review of data in grantees' performance reports, which he said was revised this past year in order to provide more useful information for assessing the actual progress of projects and activities in terms of physical accomplishments as well as financial status;
- the issuance of significantly revised guidance of on-site monitoring of projects and activities, with a major emphasis on examination of the grantee's management capacity as part of determining whether their program is being carried out both as described in the application and in a timely manner; and
- the provision of technical assistance to grantees requiring such help in the timely implementation of their block grant program.

Beginning in 1977, HUD became increasingly concerned with low drawdown rates and began to warn communities that future grant levels could drop if the approved funds were not spent. While the cumulative drawdown rate for the block grant program has increased steadily over the years, a substantial amount of unspent funds--about \$3.6 billion <sup>1/</sup>--remained available as of April 30, 1980. HUD officials told us on August 18, 1980, that the current rate of spending for block grant recipients is about 105 percent of their average monthly entitlement. HUD's fiscal year 1981 operating plan calls for grantees to draw down at a rate of 110 percent of the amount drawn down in fiscal year 1980. Even if this goal is achieved, however, it could take a number of years for grantees to draw down the \$3.4 billion backlog.

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<sup>1/</sup>The \$3.6 billion includes about \$200 million for holdharmless grantees no longer eligible for the program.



HUD's April 30, 1980, drawdown report (the report showing the highest cumulative drawdown rate in the program's history--72 percent) includes holdharmless jurisdictions which were not funded in fiscal year 1980 and which will not be funded in the future. The Chief of the Data Analysis Branch told us that the drawdown rate had not been calculated separately for formula entitlement jurisdictions which have continuing funding eligibility in fiscal year 1980 and beyond. We calculated the cumulative drawdown rate for communities which are currently being funded under the program and are eligible for funding in future years and found that the national drawdown rate as of April 30, 1980, was 69 percent, or 3 percent less than the percentage reflected in HUD's report.

Because of time constraints we did not perform a detailed analysis of the accuracy of HUD's monthly drawdown report. In the process of reviewing the reports, however, we found errors which tend to inflate the national drawdown rate. For example, the cumulative grant funds available to several grantees as of April 30, 1980, were understated. Further, we observed 19 instances in the report which showed erroneously that grantees had drawn down more funds than were available, ranging from 101 percent to 452 percent of the amount cumulatively available. The Director of HUD's Community Planning and Development Data Systems and Statistics Division told us that the effect of these 19 errors decreases the national drawdown rate by only .38 percent and added that there may be other errors in the data for other grantees which could offset the errors we found. While this .38 percent decrease appears to be small, it should be noted that these 19 grantees were credited with having drawn down \$26 million more than their approved entitlements.

HUD POLICIES AND PROCEDURES ENCOURAGE FASTER  
SPENDING, BUT ADEQUATE MONITORING HAS LAGGED BEHIND

HUD has certain internal and external policies and procedures indicating that it considers the drawdown rate to be an important indicator of program progress. These policies and procedures place substantial emphasis on improving drawdown rates. HUD has been successful in having slow spending grantees improve their spending levels, but this emphasis, without adequate monitoring and evaluation, can contribute to ineffective use of funds. HUD's Inspector General has raised questions about the adequacy of monitoring and evaluations of the block grant program by HUD and its grantees. In commenting

on the report draft, the Director of HUD's Community Planning and Development Operations Analysis Division pointed out that a monitoring handbook, published in March 1979, should alleviate the problems of identified past deficiencies in HUD monitoring of recipients.

### Internal emphasis

HUD's response to concern about the slow drawdown rates of formula entitlement communities is expressed in the Executive Management Review (EMR) system. HUD uses the EMR system to establish annual priority objectives for its various program offices. The Office of Community Planning and Development has had improved drawdown rates as one of its national priority objectives since fiscal year 1979. The priority objectives statement regarding drawdown, as stated in the EMR, for fiscal years 1979, 1980, and the draft plan for 1981 are as follows:

#### 1979

"Improve the drawdown rate of at least the slowest 10 percent of all entitlement grantees. After identification of the slowest drawdown cities and determination of their FY 79 entitlement, plans must be developed to ensure that the amount drawn down in FY 79 will at least equal the newly approved entitlement. The goal is to have the amount of dollars drawn down equal the amount of the FY 1979 entitlement grant."

#### 1980

"Improve drawdowns for metro cities and urban counties in region. Ensure that the aggregate drawdown for all metro cities and urban counties shall equal (or exceed) \$ \_\_\_\_\_ during FY 80. (This amount will be computed as the total expected allocation of funds to metro cities and urban counties in FY 80, minus the allocation to MC's [metropolitan cities] that have never participated in the CDBG program.) Each region must establish quarterly targets for its share of the national entitlement. The quarterly targets should vary to reflect estimated drawdown patterns. Progress will be tracked on a monthly basis against quarterly and annual targets."

1981 (Draft Plan)

"Ensure that the aggregate drawdown amount during fiscal year 1981 for all metro cities and urban counties in the region is at least 110 percent of the amount drawn down in fiscal year 1980."

The Director of HUD's Community Planning and Development Operations Analysis Division told us that in addition to the priority objectives for improving drawdown rates, field offices were given priority objectives in fiscal years 1979 and 1980 requiring them to monitor each entitlement grantee in the areas of progress, benefit, implementation of housing assistance plans and citizen participation. The Director added that the proposed priority objectives for fiscal year 1981 would require each entitlement grantee to be monitored in the same four areas, with some flexibility to omit reviews if the monitoring in fiscal year 1980 met HUD's criteria and there are no new concerns about the grantee's performance.

HUD's executive performance appraisal system which is used to rate regional office administrators in the community development area has a section on drawdown which states that individuals will be rated on their ability of:

"Assuring that CDBG entitlement and small cities recipients drawdown funds at an acceptable rate for selected years. Evaluated in terms of:

--The rate of improvement by identified slow performers.

--Actions taken by Field Offices to encourage improved performance or to initiate remedial sanctions for lack thereof."

HUD's Community Planning and Development Office of Field Operations and Monitoring conducts evaluations of how effectively HUD's area offices are implementing various programs. Additionally, the Field Operations and Monitoring Office periodically reviews individual cities' performance in implementing the program. We have examined several of the resulting narrative reports and found that the issue of drawdown is discussed in most of them. On the summary sheet which is called "Community Development Indicators," drawdown and obligation figures are the only items listed under the caption "Progress". These are two of 26 indicators which give a profile of the city's program.

A revised method of drawdown analysis proposed by HUD would measure unspent program funds in terms of program years instead of dollars. An August 1980 draft notice (not yet implemented) states that drawdown remains the most consistent, objective, and readily available measure of program progress. The draft states that drawdown is most effective when analyzed in at least three ways including percentage of total funds drawn down, the number of program years represented by funds not yet drawn down, and drawdown for the most recent year versus the amount of the most recent grant approved.

The draft notice recognizes that although drawdown analysis is a useful initial indicator of overall progress, further review of grantee performance is necessary. The draft notice calls for this analysis to focus on the status of individual projects and the process the grantee uses to develop, plan, and implement its program.

#### External emphasis

Pursuant to 24 CFR 570.311(f), HUD is permitted to place conditions on grants entitlement communities receive. These conditions require that certain actions be taken by the grantees before HUD will release funds, or in some cases, if certain actions are not taken HUD will reduce the amount of the grant. HUD places conditions on block grants for reasons such as failure of a community to comply with goals stated in its housing assistance plan or failure to adequately demonstrate that low- and moderate-income persons are benefiting from a certain activity. HUD also places conditions on some grantees which require them to draw down and/or spend specific dollar amounts of block grant funds. Generally, the condition HUD places on the grant says that, unless the community spends a certain amount of money by a certain date, the grant will be reduced by the amount specified--basically a use or lose requirement.

We reviewed several summary letters HUD sent to the communities on the review results. Our review showed that the issue of drawdown was discussed extensively for those grantees identified as slow spenders. Four examples of quotes found in those letters on drawdown follow.

--"The Department has identified Camden City as an entitlement community that has an inadequate drawdown rate. We are therefore requesting that you submit quarterly reports indicating how you

intend to drawdown an amount at least equal to your 1980 entitlement during the current fiscal year."

--"Because the City's [Moss Point, Miss.] 64 percent drawdown average is 11 percentage points below the State average of 75 percent for entitlements, we request that you continue to submit the monthly reports required by grant condition number 2 of your B-79-MC-28-0004 application until such time as your drawdown percent is equal to or greater than the State average."

--"Program progress has continued to slow during the past two years and has reached the point that if implementation is not improved substantially in the future, we must conclude that Durham lacks the capacity to carry out the program as intended by Congress in the 1974 HCD Act as amended."

"As of December 4, 1979, the City [Durham] has utilized only \$6,674,000 or 54 percent of the available \$12,420,000 in Block Grant funds. This expenditure rate is the lowest of any formula city in North Carolina and has resulted in Durham being designated by the Department as the only entitlement poor performer in North Carolina. As a result of this designation, we have been required to establish for the City a FY 80 monthly expenditure rate."

--"The Town of West Seneca has been identified by HUD as a slow drawdown community. In April 1979, the Town was notified that it was a departmental objective to have such communities expend CDBG funds during the Federal Fiscal Year (October 1, 1978 - September 30, 1979) in an amount equivalent to its FY 1979, entitlement grant amount which is \$518,000. At the request of this office, the Town's Community Development Officer submitted a schedule of anticipated expenditures for for Fiscal Year 1979. Although the community estimated expenditures of \$421,000, \$97,000 short of the \$518,000 goal, the actual drawdowns totaled \$188,539 or \$329,461 under the \$518,000 objective."

Emphasis on drawdown has resulted  
in increased spending by grantees

We found that between December 16, 1977, and July 3, 1980, HUD required 32 formula entitlement grantees to improve their spending rates. Our analysis showed that HUD, on the average, required that communities draw down block grant funds at a rate of 1.42 times their historical rates and that these communities responded by drawing down funds at 1.35 times their historical spending rates. Two communities were required by HUD to draw down funds at rates as high as 12 times their historical draw-down patterns. We noted that 10 grantees spent funds at a rate of more than double their historical spending rate after HUD placed conditions on their grants; 2 of these spent funds as high as 7 times their historical patterns.

We found instances indicating that the rate at which funds are spent, by itself, is not an adequate measurement of whether community development objectives are being met. Because certain types of projects can utilize funds more quickly than others (i.e., public services vs. rehabilitation), grantees can achieve the required increase in drawdowns by reprogramming funds to faster spending projects which may not correspond to their most urgent needs. Various city officials told us that HUD's emphasis on spending could cause communities to spend funds on projects they do best, not necessarily on those which they need most. In addition, a January 1980 Brookings Institution study noted that the City of Phoenix, Arizona, transferred funds originally allocated for several new housing and neighborhood conservation activities to activities it could more easily execute.

A recent HUD briefing paper on the City of Memphis, Tennessee (one of the grantees conditioned for a slow spending rate) noted that:

"\* \* \* the acceleration [of the drawdown rate] has come at least in part from some troublesome redirection in the local program:

- "1. The gaps in the availability of Section 312 funds have led to larger commitments of CDBG funds to non low- and moderate-income households for rehabilitation assistance.
- "2. The use of CDBG funds to finance the purchase and rehabilitation of houses is becoming the dominant feature of the rehabilitation assistance program. This results in greater "draw-downs" for the same amount of rehabilitation work accomplished.

- "3. Grant funds in an amount of \$4 million were borrowed from public improvements in the NSA's, [neighborhood strategy areas] to be used for multifamily residential rehabilitation (which is expected to move into execution faster). This threatens the viability of a comprehensively planned program. \* \* \*

Recognizing that Memphis's slow spending rate might reflect management deficiencies, HUD conducted an analysis of its problems and conveyed the following points, among others, to city officials:

- (1) The project planning was late, often failing to get underway until after HUD had approved the project.
- (2) The financial management system was so weak that program managers could not obtain current, complete data on the status of funds; considerable time was lost before stagnant funds were clearly identified.
- (3) Not until July of 1979 was a formal monitoring system initiated. Information on project delays could not routinely come to the attention of program managers. Although a monitoring system had been started, it needed strengthening and refinement.
- (4) The grantee was unable to attract and/or retain a sufficient supply of contractors to carry out its rehabilitation and public improvement programs.

The illustration below shows that the drawdown rate as a progress measurement, by itself, is not adequate and can create an illusion of greater spending progress than has actually been achieved. A report by HUD's Atlanta Regional Inspector General noted that:

"In Memphis, Tennessee, our review disclosed that the recipient had drawn down and disbursed all funds payable to eight secondary recipients prior to the time the funds were actually needed. The procedures used by the recipient provided for the

full amount of funds applicable to each grant agreement with a secondary recipient to be disbursed either at the time the agreement was signed or shortly thereafter. As a result, approximately \$478,550 was being held by secondary recipients at June 30, 1979."

Additionally, a recent research report prepared for HUD by the Brookings Institution on the block grant program noted that while the rate of spending is an important indicator, it is more useful as a signal of program difficulties than as an index of program quality or success.

HUD's Inspector General  
criticizes block grant monitoring and evaluations

The HUD Inspector General's May 1980 report to the Congress recognized the need for program participant monitoring as an important means of protecting HUD's interests in identifying serious participant problems or irregularities.

However, two previous HUD Inspector General semiannual reports to the Congress reported HUD was not adequately monitoring HUD program participants, including block grant recipients. The May 1980 report again mentioned that its audits during the reporting period disclosed inadequate monitoring of program participants. We were told by Inspector General officials that the inadequate monitoring disclosed during this period included examples identified in the block grant program. In commenting on our draft report, the Director of HUD's Community Planning and Development Operations Analysis Division stated that:

"In 4 Regional audits issued between May and September 1979, HUD's Inspector General had raised questions about the adequacy of monitoring by HUD. This was based on reviews conducted between May, 1975 and May, 1979. For the greater part of this period there was no national policy on how a grantee's progress should be monitored, as the CPD Monitoring Handbook was not published until March, 1979."

The Director further said:

"HUD policies on reviewing progress as stated in the CPD Monitoring Handbook, include not only a review of drawdown (or expenditure) rates, but also: (1) review of the grantee's management system; (2) review of individual projects and



activities, including those which are slow moving; (3) results of any reviews from HUD specialists who have reviewed specialty areas that relate to progress (e.g., rehabilitation); (4) total obligations and expenditures for the program compared to the total grant amount; (5) the grantee's progress compared to grantees of similar size with similar activities and grant amounts."

Regarding monitoring by grantees, however, in a memo dated August 7, 1980, HUD's Inspector General told the Assistant Secretary for Community Planning and Development that a large portion of audits reviewed disclosed problems in grantees' monitoring and evaluating grant-supported activities. Specifically, the problems included, among others, systems which

- did not provide for assessing the effectiveness or efficiency in achieving project goals,
- lacked defined goals and objectives, and
- produced inaccurate progress reports.

ANALYSIS OF HUD INSPECTOR GENERAL AND  
INDEPENDENT PUBLIC ACCOUNTANT  
REPORTS ON BLOCK GRANTS

Our review of HUD Inspector General and independent public accountant audit reports on the block grant program did not disclose any cases where program abuses or inefficient spending were specifically linked to an emphasis on accelerated spending rates. The Assistant Inspector General for Audit told us this issue has not been included as a specific step in their audits.

We did find, however, that the Inspector General's office had identified numerous instances of improper or questionable uses of block grant funds, costs not adequately supported, grantees drawing down block grant funds and holding them in excess of their needs, and deficiencies in grantee monitoring. These deficiencies, in our opinion, have the effect of reducing the actual results being achieved with block grant funds.

In an April 3, 1978, memorandum summarizing audit findings in the block grant program, the Inspector General's office summarized 175 audit reports on block grant recipients.

The report indicated that audit findings were made in 135, or 77 percent, of the reports. This summary noted that about 29 percent of the grantees had one or more findings predominately involving excessive drawdowns of funds. On an overall basis, about 16 percent of the 175 grantees were cited for having deficient contracting and procurement systems which led to such conditions as: the execution of inadequate contracts, improper or questionable contract payments, use of ineligible contractors, and failure to engage in open competition. Additionally, the largest single category of adverse actions involved grantee accounting and budgetary deficiencies with 55 percent of all grantees being cited for deficiencies in this area.

In a July 22, 1980, memorandum summarizing audit findings in the block grant program, the Inspector General's office reviewed 107 audit reports on block grant recipients and found that all but 3 reports contained audit findings. This is a considerably higher percentage than that found in the April 3, 1978, memorandum discussed above. The 107 audit reports reviewed disclosed about \$2.7 million of disallowed costs and \$19.6 million of questioned costs and included several frequently recurring problems, such as:

- Charging of ineligible costs and costs not adequately supported to the block grant program. This is the most prevalent problem disclosed in these reports.
- Grantees drawing down block grant funds and holding them in excess of their needs. Some grantees have been found to draw down funds which were then invested instead of being disbursed to finance block grant activities. One instance was disclosed where a grantee earned about \$87,000 interest on an excessive drawdown of about \$1.8 million.
- Deficiencies in grantee monitoring and evaluations involving systems which would not provide assurance that performance was adequate and that program objectives were being met.
- Charging block grant funds 100 percent for activities which should have been allocated between block grant and other community programs.

The Inspector General's May 1980, semi-annual report pointed out that a special operational survey of rehabilitation activities under the block grant program identified several deficiencies in this area, such as: (1) poor workmanship and incomplete repairs, (2) inadequate work write-ups, (3) inadequate inspections of rehabilitation work, (4) final inspections not documented or not performed, (5) contractors paid for work not done or poorly done, (6) ineligible participants, (7) eligibility of participants not verified, (8) lack of competitive bidding on contracts, and (9) rehabilitated properties not meeting housing quality standards. As a result, the actual program accomplishments under the rehabilitation activity, in our opinion, are reduced by the degree to which the audit findings are being identified and substantiated. Consequently, the drawdown rate for this program activity can present a picture of greater progress than is actually being achieved.

In a July 24, 1980, memo responding to recommendations in the block grant rehabilitation operational survey, HUD's Regional Administrator (Region V) told the Region V Inspector General that:

"Many of the recommendations \* \* \* propose the imposition of certain requirements upon grantees."

\* \* \* \* \*

"In discussions with Assistant Secretary Embry's top staff, we have been advised that we should not impose upon grantees these types of requirements. They are concerned that by doing so the Department will be establishing a pattern of requirements which, when reviewed on a national basis, will be interpreted as the establishment of Departmental policy for rehabilitation. They are concerned that such an ad hoc policy could lead to the imposition of regulatory requirements for rehabilitation activities which would not only limit the flexibility of program choices at the local level but would also result in a greater level of complexity in the operations of the program. Such results, they feel, would be inconsistent with both the intent of the Block Grant Program to provide local government with the greatest possible flexibility in meeting their housing and community development needs within national priorities and the Administration's objective to simplify governmental regulations."

In commenting on our draft report, the Director of HUD's Community Planning and Development Division of Rehabilitation Policy and Assistance, said:

"Although HUD does not feel that there is any direct correlation on emphasis to spend CDBG funds and problems with rehabilitation quality and the other issues raised by the Inspector General, HUD has been taking recent steps to stimulate higher quality rehabilitation work. In addition to significant increases in CDBG monitoring by HUD Area Offices in recent months, the agency has now embarked on an intensive technical assistance effort, including both training and direct management assistance for local officials. HUD believes that continued pressure on draw down rates combined with effective monitoring and comprehensive technical assistance can stimulate both a speed-up in CDBG expenditures and higher quality rehabilitation work."

#### CONCLUSIONS

Although the national drawdown rate for expenditures under the block grant program has increased significantly over the past 5 years, a balance of \$3.4 billion had not been spent as of April 30, 1980. Even if HUD's anticipated spending rate is realized, it could take block grant recipients a number of years to utilize the backlog.

The use of the drawdown rate as a measure of program accomplishments has been emphasized by HUD. Its policy directives, procedures, and even its evaluations of senior regional officials have stressed improved spending as a measure of how well the program is being managed. In its reviews of slow spending grantees, the issue of drawdown is greatly emphasized.

We believe that the emphasis HUD is putting on spending block grant funds in directives and guidance to its administrators and to entitlement communities creates the potential for ineffective and inappropriate use of such funds. This emphasis seems particularly questionable in light of the HUD Inspector General's past findings on the lack of adequate monitoring by HUD of the uses of block grant funds by grantees, as well as inadequate grantee monitoring. We believe that initiatives by HUD in the area of improved monitoring can help reduce this problem, if properly implemented.

We are making no recommendations at this time, pending completion of the further work requested in your July 29, 1980 letter.

AGENCY COMMENTS

In commenting on a draft of this report HUD officials said that the facts in the report are substantially correct, but added that it should not be inferred that the drawdown rate is the only measure of grantee performance. Additionally, HUD officials stated that current HUD policies clearly state that drawdown is but one measure of program progress to be used in conjunction with other indicators in monitoring program performance and in making capacity and progress judgments.

