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BY THE COMPTROLLER GENERAL  
**Report To The Ranking Minority Member  
Committee On Appropriations  
United States Senate  
OF THE UNITED STATES**

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# **The Community Development Block Grant Program Can Be More Effective In Revitalizing The Nation's Cities**

The revitalization needs of the Nation's cities far outstrip the Federal Government's ability to provide funds to help provide decent housing, jobs, and neighborhoods. The Department of Housing and Urban Development's Community Development Block Grants allow cities to use Federal funds to finance a broad range of activities and services. However, GAO found that the lack of limitations on how funds may be used is diluting the program's impact. Furthermore, grantees need to focus block grant funds where they can achieve visible long-term results.



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The Congress should examine the need for limitations in the block grant program. Congressional examination of this program would be useful in evaluating the administration's proposal to restructure HUD's community development assistance programs so that limited funds can be used more effectively without excessive Federal intervention in the program's day-to-day operations.



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

B-199908

The Honorable William Proxmire  
Ranking Minority Member  
Committee on Appropriations  
United States Senate

Dear Senator Proxmire:

As requested in your July 29, 1980, letter, and as subsequently discussed with your office, we reviewed the Community Development Block Grant Program to assess the effectiveness of targeting of funds, residential rehabilitation, and monitoring of grantee performance. This is our report on the subject.

We requested the Department of Housing and Urban Development to comment on this report, but the Department did not provide comments within the time period provided for in Public Law 96-226.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from its issue date. At that time we will send copies to the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,

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

Acting Comptroller General  
of the United States

D I G E S T

The Community Development Block Grant Program allows cities to undertake a wide variety of activities to provide decent housing, jobs, and neighborhoods for their residents. Funds can be used for acquisition and disposition of property, street improvements, water and sewer facilities, rehabilitation of private properties, public services and parks, playgrounds, and other recreational facilities.

The program's legislative history shows that, while the Congress intended communities to have great flexibility in implementing their block grant programs, cities were to design their individual programs within broad national objectives. In essence, the act called for more Federal involvement than a "revenue sharing" approach but less than had existed under the categorical programs which the block grant program replaced.

In view of the size of the cities' problems and the limited amount of funds available, it is imperative that block grant funds be used prudently. However, GAO found that

- cities often spread funds too widely, thus diluting the impact they may have on the cities' revitalization;
- rehabilitation funds often are spent for questionable purposes and are not always provided to persons in the greatest need; and
- there sometimes is insufficient information to determine whether funds are properly spent for eligible activities.

BETTER TARGETING NEEDED

The Department of Housing and Urban Development (HUD) has taken several initiatives to encourage better targeting by communities. While these initiatives have produced positive results, community and HUD officials indicate a need exists for even better targeting. (See p. 7.)

HUD and city officials attribute the dispersion of block grant funds to numerous and large geographic areas to local pressures to spread funds around the city rather than to concentrate them in distressed areas where significant improvements can be made in a reasonable period of time. (See p. 7.)

Compounding the geographic dispersion problem, the broad range of eligible activities has resulted in cities funding items and activities whose relationship to cities' revitalization needs is questionable. For example, public services such as child care, health services, police services, education, and counseling can be funded from the Community Development Block Grant Program. However, city officials believe these services--amounting to about \$240 million annually--are of lowest priority in urban revitalization.

While these services may be needed, the Congress should consider whether funds authorized to revitalize our communities should be used on these activities in light of the great revitalization needs facing our communities. (See p. 9.)

#### CHANGES NEEDED IN BLOCK GRANT REHABILITATION

Over 25 percent of all block grant funds nationwide are used for residential housing rehabilitation. The need for rehabilitation far exceeds community goals and achievements. For example, in one city GAO visited, over 14,000 housing units needed rehabilitation, but only 377 units had been completed, and only 425 more were planned for rehabilitation over a 3-year period. (See p. 18.)

The broad latitude afforded communities in designing their own rehabilitation programs has hindered their effectiveness. Some examples of work performed include replacing functional appliances, constructing patios and sun decks, and installing dishwashers and trash compactors. GAO also found widely varying income eligibility requirements, financing techniques, and maximums allowed for rehabilitation work. (See p. 20.)

Communities provide block grant-supported rehabilitation funds to their residents through grants and/or loans. Income eligibility limits

for the programs GAO reviewed ranged from strict to none at all. In one city 31 out of the last 200 loans made went to residents whose annual incomes exceeded \$30,000. (See p. 20.)

GAO also found a wide range in the extent and types of rehabilitation work. For example, maximum assistance financed by grants ranged from \$1,500 to \$15,000 and from \$6,000 to \$35,000 for work financed by loans. (See p. 21.)

In a nationwide review of block grant rehabilitation activities, HUD's Inspector General identified other problems, including contractors being paid for work not done, poor quality workmanship, and initial and final inspections not being performed or documented. (See p. 22.)

MONITORING IS IMPROVING BUT  
CONTROLS OVER GRANTEE  
EXPENDITURES SHOULD BE  
FURTHER ANALYZED

Responding to past reports of weaknesses in HUD's monitoring of block grant recipients, HUD has modified its grantee monitoring system. These changes appear promising in solving past problems, but it is too soon to fully determine their effect. (See p. 29.)

Grantees' controls over expenditures of block grant funds are an essential prerequisite to preventing fraud, abuse, and waste. Although it was not included in the scope of GAO's review, there are numerous examples where information and controls are inadequate to assure that program expenditures are for eligible items and are adequately supported and/or justified.

HUD's Inspector General needs to do more to identify the overall extent of these problems and prescribe solutions.

RECOMMENDATION TO THE CONGRESS

The Community Development Block Grant Program's legislative history provides for local flexibility. However, GAO's review raises questions as to whether local flexibility should be tempered with more Federal guidance on the overall limits within which cities can operate their block grant programs.

GAO recommends that appropriate congressional committees examine the overall impact of assistance provided under the Community Development Block Grant Program and identify additional measures needed to meet the objectives of the Housing and Community Development Act of 1974. Specifically, the following issues should be considered:

--The need for all grantees to concentrate their block grant funds in distressed geographic areas small enough so that visible improvements can be achieved in a reasonable time period and to ensure that claimed benefits to low- and moderate-income persons are, in actuality, occurring.

--The need to reduce the broad list of activities currently eligible so that funds can be focused on those activities which meet the cities' most urgent revitalization needs. Some activities, public services for example, might more appropriately be funded by other Federal agencies, with knowledge of and expertise to administer and establish priorities for these activities.

--The need to develop overall income eligibility requirements for recipients of block grant-supported rehabilitation. Such limits would result in increasing the number of low- and moderate-income persons who could be served by the program.

--The need to limit eligible rehabilitation work to that which is essential to restore the housing unit to a safe, decent, and sanitary condition, specifically prohibiting non-essential and luxury items, so that more homes needing basic repairs can be rehabilitated.

This examination would also help the Congress in considering the administration's proposal to restructure HUD's community development assistance programs into a more efficient and flexible grant mechanism. Targeting and additional Federal guidance on eligible items--two topics which GAO believes should be the subject of congressional examination--could increase the program's impact and help reduce the effect of proposed budget cuts without excessive Federal

intervention in the program's day-to-day operations. (See p. 25.)

RECOMMENDATION TO  
THE SECRETARY, HUD

The Secretary should direct the Inspector General to determine the extent of problems in grantees' controls over expenditures of block grant funds and to recommend solutions to the problems. (See p. 36.)

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GAO requested HUD to comment on this report, but HUD did not provide comments within the time period provided for in Public Law 96-226.



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#### ABBREVIATIONS

CPD	Community Planning and Development
GAO	General Accounting Office
HAP	housing assistance plan
HUD	Housing and Urban Development
IG	Inspector General (HUD)
IPA	independent public accountant
NSA	neighborhood strategy areas

## G L O S S A R Y

Grantee Performance  
Report

Each entitlement recipient submits an annual grantee performance report as required by section 104(d) of the Housing and Community Development Act of 1974. The grantee is required to include information in the report on progress of activities, benefit to income groups, and housing opportunities, among other data.

Housing assistance  
plan

The housing assistance plan is a required part of the application for block grant assistance and (1) assesses housing conditions and households that need assistance, (2) identifies the goals to meet these needs, and (3) describes the actions to achieve these goals. The plan is intended to coordinate community development and Federal housing programs.

Neighborhood strategy  
areas

An area designated in a community's 3-year community development and housing plan for a program of concentrated community development activities. For each neighborhood strategy area the applicant shall include in its 3-year plan a comprehensive strategy for stabilizing and upgrading the area which (1) provides for a combination of physical improvements and necessary public facilities and services; housing programs; private investment and citizen self-help activities, (2) coordinates public and private development efforts, and (3) provides sufficient resources to produce substantial long-term improvements in the area within a reasonable period of time.

## CHAPTER I

### INTRODUCTION

At the request of the former Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, we reviewed specific aspects of the Department of Housing and Urban Development's (HUD's) Community Development Block Grant Program. On July 29, 1980, the subcommittee requested that we conduct two reviews. Based on the request, the first report 1/ contained an analysis of block grant drawdown rates. For this report, we were specifically asked to focus on targeting of funds, effectiveness of rehabilitation, and monitoring of grantee performance.

### CONDITION OF OUR NATION'S COMMUNITIES

Many housing and community development challenges face our Nation during the 1980s--the most critical of these is the need to revitalize our Nation's cities. Our cities are an important national resource because they represent a massive amount of economic, social, and physical investment.

Unfortunately, however, many communities are experiencing economic and fiscal distress so severe that they cannot provide a decent environment, adequate jobs, and viable neighborhoods for their residents. The problems are most profound for those cities in distress, but pockets of poverty also exist in relatively healthy communities.

The Federal Government's concern over community growth and development has been expressed many times and in many ways. Financial assistance amounting to billions of dollars has been provided to our Nation's communities to help solve their problems. Federal outlays in fiscal year 1981 for community and regional development activities will be about \$9 billion. An additional \$28 billion will support civil public works and construction, the primary purpose of which is to fulfill other national needs but also promote community and regional development.

The Nation's first comprehensive urban policy statement, 2/ issued on March 23, 1978, stated, in part:

"Our goal must first be to provide immediate assistance to the most troubled cities and communities. Beyond this, our goal must be to help all cities offer their residents decent

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1/"Analysis of Community Development Block Grant Drawdown Rates" (CED-80-137, Aug. 20, 1980).

2/"A New Partnership To Conserve America's Communities: A National Urban Policy," prepared by the President's Urban and Regional Policy Group.

services, adequate jobs, sound neighborhoods, good housing, and healthy environments. Our efforts should be directed, to the maximum extent possible, at helping cities help themselves.

"We should help distressed cities and communities recover their financial stability and make certain that today's healthy cities do not become distressed in the future. We should also assist our older cities to restructure their economies and better adapt to change. A decent quality of life must be made available to their residents."

Recent indications, however, are that efforts to revitalize communities have had little impact. For example, a 1980 report entitled "The Prospects for Urban Revival," prepared under a HUD contract to the Brookings Institution, concludes that

"\* \* \* there is little evidence, at least to date, that either residential or economic revitalization has had any appreciable impact on any appreciable number of older cities."

Furthermore, this report concluded that

"\* \* \* we lack the statistical capacity to say a great deal about recent changes in cities, and it is unlikely that we will gain that capacity in the future."

Regarding prospects for the future, this report concluded:

"In sum, available evidence provides little cause for optimism about the not-too-distant past of more distressed cities. Over the middle seventies, people, jobs, and wealth continued to move out of these cities and into newer, more prosperous ones. By almost any reasonable measure of the prosperity of places--levels of population, income, employment, economic activity, and concentration of low-income households--more distressed cities were appreciably worse off in the late seventies than they were 10 years earlier, and more prosperous cities were appreciably better off. Some areas inside some older cities may be reviving, but these revivals don't affect the overall trend. Available evidence, in short, provides no support whatever for the notion that the urban crisis is over, or has moderated to the extent that it is no longer a matter of legitimate governmental concern."

BLOCK GRANT PROGRAM  
HISTORY AND DESCRIPTION

Title I of the Housing and Community Development Act of 1974 (Public Law 93-383) created a new program within HUD which became effective January 1, 1975. This program, called the Community Development Block Grant Program, replaced several 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 grants.

The change to the block grant approach reflected a desire to shift the responsibility for community development from the Federal Government to the local governments, as well as to streamline the application and review process. The block grant program provides communities much more flexibility than was allowed under the categorical system to design programs which will meet the cities' community development needs.

While the 1974 act provides for greater decentralization of authority to cities (compared to previous categorical programs), local discretion was tempered by national objectives. In essence, a compromise was struck between the administration and the Congress, resulting in a program which provided for more Federal involvement than a "revenue sharing" program but less than previous categorical programs. As finally enacted, the act provided that cities meet certain conditions in their use of block grant funds.

Under the block grant program, the city can choose from a wide range of eligible activities with which to devise a community development program. The list of eligible activities, while including some activities eligible for assistance for the first time, is basically a combination of those activities eligible under the categorical programs. Communities assisted under the program can undertake a wide range of activities including, among other things, acquiring and disposing of property, street improvements, water and sewer facilities, rehabilitation of private properties, public services and parks, playgrounds and other recreational facilities.

Cities with populations over 50,000, central cities of standard metropolitan statistical areas, and some urban counties with populations over 200,000 are entitled to receive funds. Presently, about 660 communities are eligible for block grant funds under the entitlement provision of the program. The annual amount each community is entitled to is based on a dual formula which takes into account the following criteria:

First formula

Second formula

Poverty - 50%

Poverty - 30%

Population - 25%

Population growth  
lag (1960-75) - 20%

Overcrowded housing - 25%

Age of housing stock - 50%

The community is entitled to the higher amount from the two formulas.

Upon application and HUD approval, communities receive funds for various 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.

About \$19 billion has been appropriated during the 6-year period of the program. The current authorization for fiscal years 1981, 1982, and 1983 is about \$12 billion. However, the new administration has proposed reducing the funding for a combination of the block grant and Urban Development Action Grant programs, and consequently the full amount of the authorization may not be requested.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to assess three important aspects of the block grant program: the degree to which funds are being concentrated (targeted) on strategic geographic areas, high priority activities, and low- and moderate-income people; the effectiveness of the block grant rehabilitation program; and the quality of HUD's monitoring system. We conducted our review at HUD headquarters in Washington, D.C.; its area offices in Buffalo, Chicago, Knoxville, Los Angeles, Milwaukee, Minneapolis, Newark, New York, and Washington, D.C.; and examined 15 block grant program recipients in California, Illinois, Minnesota, New Jersey, New York, Tennessee, Virginia, and Wisconsin.

Prior to initiating our audit effort, we reviewed available community development reports and literature, concentrating on HUD reports and those of independent researchers and consultants, to gain a thorough understanding of the issues involved in the block grant program.

During our work, we talked to HUD's Assistant Secretary for Community Planning and Development, as well as others on his staff, including the Deputy Assistant Secretary for Urban Policy; the Director, Office of Field Operations and Monitoring; the Director, Office of Block Grant Assistance; and the Director, Office of Evaluation. In addition, we attended "Selected City" briefings, HUD field offices' presentations to the Assistant

Secretary on the community development programs of various cities. We also reviewed HUD headquarters' evaluations of field offices. As well as monitoring congressional hearings, we met with city officials to obtain their views of the program.

We judgmentally selected the 15 grantees 1/ to obtain geographic dispersion and a good mix of such variables as the amount of block grant funds received and spent; population; degree of distress; whether the community's grants had been conditioned by HUD for any reason; and amount of funds spent for certain activities, such as rehabilitation and public works. We consulted with various HUD officials on our selection of communities, and they generally agreed that we had a good mix of entitlement grantees in the program.

Although not intended to be statistically representative, nor capable of being projected across the whole program, we believe that the activities of the communities reviewed present a good cross section of the activities being conducted with block grant funds. Our findings are confirmed in reports issued by HUD's Inspector General and in reports prepared by various research organizations. Further, we examined the adequacy of existing procedures to determine whether deficiencies identified could occur on a widespread basis.

Although our review of the block grant program identified several problem areas needing improvement, we observed many beneficial activities directed at eliminating slums and blight or which were assisting low- and moderate-income persons. The accomplishments of the block grant program are the subject of a study HUD is currently undertaking.

The statistical information in this report is generally based on fiscal year 1980 HUD and community records. Where we discuss individual activities of selected communities, we used the 3 most recent completed program years, usually 1978-1980.

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1/See appendix III for a listing of the 15 grantees we visited.



## CHAPTER 2

### BETTER TARGETING NEEDED FOR MORE

#### EFFECTIVE COMMUNITY DEVELOPMENT

Communities are not sufficiently targeting their funds to defined geographic areas in which substantial improvements can be made in a reasonable period of time. Target areas are too large and too numerous for effective concentration of block grant funds.

We also observed activities being conducted which city and HUD officials believed were minimally related to community development. City and HUD officials acknowledged that the list of activities eligible under the program is virtually all-inclusive, resulting in the spreading of block grant funds across the city rather than addressing the city's greatest community development needs. During 1979, entitlement communities allocated approximately \$240 million to public services. Some activities funded include ice-skating and music lessons, a preschool home learning program, and a repertoire theatre. Many city officials included in our review ranked public services low when asked to prioritize the eligible activities on the basis of their cities' needs. Some cities had already begun to phase down public services in their block grant programs.

#### BETTER TARGETING TO GEOGRAPHIC AREAS NEEDED

Although HUD has pursued measures which have somewhat reversed the early trends toward scattering of block grant resources, HUD and city officials told us political pressures have forced spreading of funds. Areas cities have designated for improvement, sometimes called neighborhood strategy areas (NSAs), are often too large and numerous. Many cities still do not have NSAs.

#### Little concentration of funds during early years

The 1974 block grant legislation encouraged concentration and coordination of community development activities to maximize the impact of block grant funds. Communities, however, did not concentrate their funds. Thus the funds were spread over areas that were too large for any significant long-term effect.

The National Association of Housing and Redevelopment Officials reported in 1977 that, in the second program year,

"\* \* \* less than 2 percent of the cities in the sample have programmed funds to less than 20 percent of their [census] tracts \* \* \*. On the other end of the scale, about 35 percent of the cities funded between 91 and 100 percent of their total city tracts."

A February 1977 report prepared by the staff of the House Committee on Banking, Finance and Urban Affairs questioned the geographic dispersion of block grant resources, as well as the lack of regard for the impact of those resources. The report questioned whether or not block grant funded community development programs are "merely a variety of eligible activities scattered throughout the community without regard to sound planning and which could result in little or no long-term impact."

Concerns about dispersion of funds prompted HUD to issue regulations in March 1978, encouraging cities to do better geographic targeting. HUD urged cities to "designate appropriate areas [NSAs] in which various programs can be carried out in a concentrated and coordinated manner." For each NSA the applicant "shall include in its Plan a comprehensive strategy for stabilizing and upgrading the area \* \* \*." The regulations stated that an NSA plan should provide for a combination of activities appropriate to the needs of the area, coordinate public and private development efforts, and provide sufficient resources to produce substantial long-term improvements within a reasonable period of time. The definition of substantial long-term improvements within a reasonable period of time was left to the discretion of HUD's field offices.

HUD's emphasis on geographic targeting has been somewhat successful. According to a 1980 Brookings Institution report, by the end of the fourth program year, communities were directing more funds toward concentrated neighborhood revitalization. Additionally, several area office representatives told us that cities are reducing the size and number of NSAs, thereby facilitating better geographic targeting. Several city officials stated that NSA designation has brought about visible improvements in their communities. However, HUD officials told us that many NSAs are still too large and some cities have too many NSAs.

#### Geographic targeting could be more effective

Officials in cities we visited informed us of political pressures to spread block grant funds geographically. As one block grant director explained it, the problem is that on the one hand the city wants the funds with no restrictions, while on the other hand, the lack of Federal regulation leaves the program in the situation of being "everything to everybody." For example, one program administrator told us that there was political pressure to give everyone "a piece of the pie."

In a Brookings Institution workshop, a participant stated that in evaluating one city's program

"\* \* \* there are several desperately bad areas that want to be targeted. They will not be targeted because of the pressure from these 14 single-member districts and the representatives from them to

spread around things like parks and recreation and swimming pools \* \* \*. The neighborhoods are in desperate need of help. Yet, the political system is spreading CDBG [Community Development Block Grant] funds across the whole consolidated government."

Another participant indicated that in another city "the 15 city council members jockey for as much money as each can get from the block grant. If they had their preference, they would choose a 15-way split."

HUD area office officials, including its Office of Community Planning and Development (CPD) Directors, acknowledged that both the number and size of NSAs need to be reduced. One CPD area office Director stated that most cities have too many NSAs and their NSAs are too large. After inspecting projects in one NSA he concluded that, although the work was good, the NSA was so large that the impact on the area was negligible.

A questionable aspect of the NSA approach is that it is optional. According to the Director, Entitlement Cities Division, many communities have neither NSAs nor target areas. HUD officials told us that the current legislation does not permit HUD to require grantees to geographically target their funds. Some communities included in our review had not established NSAs. An area office official responsible for monitoring a city without any NSAs told us that there is no assurance that good targeting is being done in that city and acknowledged that political pressures force dispersion of funds throughout the city.

A HUD Inspector General (IG) report also expressed concern about how effectively NSA plans are being implemented. A 1980 Denver regional office audit report covering seven NSAs, stated that an NSA in one area appeared to be too large for normal concentrated development. Although the application described the NSA strategy as a 15- to 20-year undertaking, no evidence was found to indicate that HUD questioned the size of the NSA. The report concluded that, contrary to the NSA concept, cities have failed to perform the prerequisites for effective NSA implementation: determining strategy area total needs, total available resources, and specific time periods for project implementation. The report stated that

"\* \* \* we believe such [NSA] planning is essential to assure the overall commitment of Grantee officials as well as effective and efficient grant administration."

The Denver regional office concurred with the findings of the audit. In order to address the deficiencies, the office informed all its entitlement grantees that it had established the standard that an NSA project must address 75 percent of the identified needs within a 6- to 9-year period. Further, the office specified the minimum information required for designating an NSA.

The IG's staff discussed this audit with HUD central office officials. In April 1980, HUD issued a notice to its area offices on review of block grant applications in which it was acknowledged that area offices have not had adequate information on NSA needs, resources, and timing on which to base NSA judgments. The notice further states that in some cases grantees have inaccurately stated NSA needs and resources. The notice advises area offices that:

- Before approval of any new NSAs, the area office must ensure that the applicant has provided a quantification of NSA needs, quantification of resources to deal with those needs, and a schedule for the provision of those resources.
- Each area office should establish its own review standard of what constitutes substantial long-term improvements within a reasonable period of time. (The rule of thumb HUD provides is that "an NSA must address 75 percent of the major housing and community development needs within a six to nine year period.")
- Regarding deficient NSA data, area offices are to notify grantees that they must provide adequate information or risk having conditions placed on the grant preventing obligation or expenditure for any activity dependent on NSA designation for eligibility.

#### BROAD APPLICABILITY OF BLOCK GRANT FUNDS LIMITS PROGRAM IMPACT

The flexibility and broad applicability of the block grant program, combined with pressure from politicians and citizen groups, has resulted in funds being spent on some activities which, in city and HUD officials' opinions, are questionably related to revitalization needs of our Nation's cities. One particular class of activity, public services, funded annually at about \$240 million, was questioned by many HUD and city officials we contacted. When asked to establish priorities for all eligible items, city officials ranked public services low in priority. Many officials said this activity could be eliminated from eligibility with little or no effect on the block grant program's goals. Additionally, several officials in HUD and the cities said block grant funds are, in many instances, used to finance activities which are more related to the missions of other Federal agencies.

#### Public service activities questionably related to revitalization objectives

During fiscal year 1979, entitlement communities nationally allocated about \$240 million (or 9 percent of entitlement cities' block grant funds) to public services. Public services became one of the activities eligible under the block grant program because it was a major component of the Model Cities program, one

of the categorical programs folded into the block grant program. However, the report accompanying the Senate version of the Housing and Community Development Act of 1974 stated that public services were intended to be deemphasized under the block grant program. The Senate report states that

"Provision of public services \* \* \* would be limited to a maximum expenditure of 20 percent of the total grants received by the community development agency during any contract period \* \* \*."

The report goes on to say that

"\* \* \* specific percentage limitations were included in order to make clear the Congressional intent that community development funds be used chiefly for 'hardware' rather than 'software' activities."

While this requirement was not included in the final version of the law as enacted, it does indicate that the need to focus block grant funds on hardware-type items has been recognized since program inception.

On a national level, the trend of public service expenditures has generally been downward. Public service spending decreased from about 13 percent in the first program year to about 9 percent in the fifth program year. However, on the city level, there are wide variances in public service spending. Although some cities are phasing public services down in their programs, many cities have annually allocated more than 20 percent of their funds to public services. For example, we noted that one city allocated 46.3 percent of its annual block grant funds to public services for its fifth program year.

City officials told us that public services could be eliminated from their programs with minimal impact on their cities' revitalization needs. In fact, when we asked them to rank all the block grant eligible items on the basis of priority or greatest need to their respective communities, many of the program directors and their staffs ranked public service activities last or in the lowest category. Samples of comments we received from HUD and city officials regarding the relationship of public services to meeting city revitalization needs include:

--Public services are a "bottomless pit."

--Public services is another way that funds can be dissipated with scant effect on revitalization.

--More time and money is wasted on public services than what they are worth.

Ironically, one city included in our review which ranked public services as its lowest priority budgeted 22 percent (about \$29 million) of its fifth-year grant on this activity.

Some officials in those cities that still permit public services told us they have tried to phase down this activity over the years. One such city's application for block grant funds stated,

"\* \* \* because of increasing emphasis on housing and community development programs, all of the public service programs, both new and continuing, are being funded for one year only."

When we asked city officials why these activities are still funded, given that they believe public services have a dubious relationship to city revitalization needs, we were told that the primary cause was citizen group pressure. For example, a city official told us that residents look upon block grant money as being a "model cities" program and exert pressure for public service activities.

Alternative sources could be used for public services and other minimal impact activities

The report accompanying the Senate version of the Housing and Community Development Act of 1974 (S. Rept. No. 93-693, Feb. 27, 1974, to accompany S. 3066) stated that the Committee on Banking, Housing and Urban Affairs believed that "community development funds should not be expended on programs which are primarily within the purview of agencies other than HUD."

We identified several projects (water and sewer, educational programs, parks and playgrounds, etc.) currently funded by block grant funds which may be eligible for funding by other Federal agencies, such as the Departments of Health and Human Services, Commerce, Education, and the Interior; the Community Services Administration; and the Environmental Protection Agency. City officials acknowledged that some activities currently funded under block grants could be funded by other agencies.

HUD requires that certain other sources of funding be sought before block grant funds are used (24 CFR 570.607). A HUD official told us that this regulation can easily be circumvented, however, by applying for those funds at the "right" time (i.e., when funding is unlikely).

TARGETING IMPROVED, BUT  
VERIFICATION OF BENEFITS  
TO LOW- AND MODERATE-INCOME  
PERSONS NOT ALWAYS ADEQUATE

During the first 2 years of the program, funds were poorly targeted to lower income groups, despite the fact that targeting of benefits to these groups is one of the major objectives of the program. Section 101(c) of the Housing and Community Development Act of 1974 specifies that:

"\* \* \* the primary objective of this title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income."

However, HUD regulations implementing the law did not contain standards regarding the degree of targeting to low- and moderate-income persons, and local certification of benefits to lower income groups was accepted as proof of targeting.

In August 1976, during Senate oversight hearings, community development organizations revealed the consequences of loose program beneficiary standards. The National Association of Housing and Redevelopment Officials reported that a substantial portion of block grant benefits had not gone to lower income groups in the first year, and the share of block grant funds to these groups had dropped in the second year. During the same hearing, the Southern Regional Council <sup>1/</sup> criticized local uses of block grant funds for tennis courts and other amenities in higher income residential areas.

HUD issues program benefit  
regulations in response

Subsequent to criticisms about poor targeting of benefits, HUD issued new regulations in March 1978 (24 CFR 570.302) on program benefits to low- and moderate-income persons. The regulations stipulated, in part, that:

--"\* \* \* each annual application \* \* \* must provide that the applicant's program as a whole shall principally benefit low- and moderate-income persons."

--"\* \* \* an application shall be presumed to principally benefit low- and moderate-income persons, absent substantial evidence to the contrary, where not

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<sup>1/</sup>The Southern Regional Council, established in 1944, is a research organization dedicated to attaining equal opportunity for all people in the South.

less than 75 percent of the program funds to be available during the three year period covered by the applicant's community development and housing plan shall be used for projects and activities which principally benefit low- and moderate-income persons \* \* \*."

These regulations were tempered by a 1978 amendment to the act which stated that:

"The Secretary may not disapprove an application on the basis that such application addresses any one of the primary purposes [principally benefitting persons of low- and moderate-income, aiding in the prevention or elimination of slums or blight, or meeting other community development needs having a particular urgency] to a greater or lesser degree than any other, except that such application may be disapproved if the Secretary determines that the extent to which a primary purpose is addressed is plainly inappropriate to meeting the needs and objectives which are consistent with the community's efforts to achieve the primary objective of this title."

Although the 1978 amendments provided additional definition to HUD's interpretation of the act's objectives, benefit to low- and moderate-income persons remains an important consideration in the program's administration, in that it is one of three primary purposes cited in the act.

According to a 1980 Brookings Institution report, entitled "Targeting Community Development," targeting of block grant benefits to low- and moderate-income persons has improved due to HUD emphasis. The report states that HUD guidance on social targeting has been an important variable in the broad, upward shift of lower income benefits.

#### Questionable assertions of benefits

City assertions of block grant benefits to low- and moderate-income persons are sometimes questionable. HUD area offices have accepted information on benefit to low- and moderate-income persons without adequate verification.

In one city we visited, a HUD area office representative indicated that the city was providing adequate benefits to low- and moderate-income persons, but we later discovered that the city had not been keeping track of such data. In an October 31, 1979, letter to the grantee, a HUD area office representative stated "all of the projects review(ed) were claimed as benefitting low- and moderate-income persons. There was no evidence found that this was not the case." We reviewed the



city's grantee performance report, showing progress achieved through December 31, 1979, and found that the grantee had failed to include required information on direct benefits to low- and moderate-income persons, stating "current data collection system does not include this information."

The HUD area office representative now responsible for monitoring the city acknowledged that this is a serious deficiency. After further investigation, she stated that the city has not been keeping track of direct benefits to low- and moderate-income persons. In a November 12, 1980, letter, the area office informed the city that income and ethnic data was missing for all direct beneficiary activities and instructed the city to develop a data collection system to incorporate this information.

In another city we visited, HUD is just currently questioning most of the city's activities regarding its benefits to low- and moderate-income persons. Our review disclosed, however, that these activities have been ongoing for several years.

The selected city briefing for another city stated that public interest groups lodged complaints in 1979 against the city's block grant program, challenging whether activities asserted to benefit low- and moderate-income persons actually provided benefits to that income group. The HUD area office acknowledged that some of the complainants' claims were valid and proposed that much of the city's 1979 funds be reprogrammed or reclassified. Another public interest group complaint was issued against the city's 1980 program, charging again that activities did not principally benefit low- and moderate-income persons. Again, the HUD area office acknowledged such deficiencies and proposed reprogramming of funds to correct inadequacies.

A 1979 report by the National Commission on Neighborhoods <sup>1/</sup> questions how effectively cities are targeting their block grant funds to low- and moderate-income persons, and whether HUD is adequately monitoring these benefits. The Commission's report stated that "[block grant] funds have been used to benefit middle and upper income people rather than the lower income groups for whom the program was intended." Further, the Commission recommended that the block grant program should be subject to a more accurate and detailed performance monitoring system in order to ascertain whether expenditures meet HUD benefit guidelines.

The Director, Entitlement Cities Division, stated that it is very difficult to determine who is benefiting from the block grant program, especially for such activities as general public

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<sup>1/</sup>A 15-month study commission, established by the National Neighborhood Policy Act of 1977, called upon to investigate the causes of neighborhood decline.

improvements and economic development. According to the Director, documentation for these activities is poor and usually based on outdated data.

## CONCLUSIONS

Meeting the objectives of the Housing and Community Development Act--eliminating slums and blight, aiding low- and moderate-income persons, and reacting to urgent local needs--would be enhanced by better targeting of resources, as well as by eliminating non-essential items and confirming that benefits are appropriately provided to low- and moderate-income persons. HUD initiatives in encouraging better targeting have been somewhat successful, but the impact of block grant resources would be enhanced by requiring that all cities concentrate their block grant funds in distressed geographic areas small enough so that visible improvements are achievable in a reasonable time period.

There is a need for limited citywide activities, such as emergency home repairs. However, concentrating funds into specifically designated areas, coupled with good planning and coordination of other Federal and local assistance, has, according to city officials and community development experts, proven to be an effective way to achieve visible, long-term revitalization goals. Yet, block grant resources need to be concentrated better. If better concentration could be achieved, it would help eliminate the negative effects of political and citizen influence to spread funds around the city, referred to so often by the officials we interviewed and in the reports we analyzed.

Permitting funds to be spent on projects marginally related to community development, such as public service activities, has reduced the impact of the block grant program. Although public services are eligible under current regulations, and while we recognize that many of these services are needed by various segments of society, the Congress should consider whether funds authorized to revitalize our communities should be used on these activities in light of the great revitalization needs facing our communities. Funds spent on these marginally related activities reduce the amount available for the most pressing revitalization needs. Furthermore, program benefits to low- and moderate-income persons are not always sufficiently verified. In addition, many of these public service activities might more appropriately be funded by other Federal agencies.

Because of our findings regarding targeting of block grant funds, we are recommending in chapter 3 that the Congress examine the program and consider whether further measures should be taken to maximize the impact of block grant funds without excessive Federal intervention in the program's day-to-day operations.

## CHAPTER 3

### CHANGES NEEDED TO ENHANCE THE IMPACT OF

#### BLOCK GRANT REHABILITATION RESOURCES

Community emphasis on housing rehabilitation under the block grant program has grown steadily since the program's inception. Funding for block grant rehabilitation has grown from about \$232 million in 1975 to over \$800 million in 1979. According to HUD estimates, nearly 200,000 housing units were rehabilitated with block grant funds in 1979. While a substantial number of housing units have been rehabilitated under the block grant program, the number falls short of the Nation's rehabilitation needs.

The broad latitude afforded communities in designing their own rehabilitation programs has hindered their effectiveness. For example, some communities permit non-essential repairs. Furthermore, the disparity in income eligibility requirements has resulted in some high-income owners receiving assistance, thus reducing funds available for low- and moderate-income persons.

HUD's IG has identified several program abuses and administrative weaknesses, such as cost estimates that were not prepared, contractors that were paid for work not done, grantees that certified work was done when it was not, and initial inspections that were not performed or documented.

The Office of Community Planning and Development believes it has initiated actions to increase local expertise and eliminate problems identified in the IG's review of rehabilitation activities. In addition to considering expanded monitoring and technical assistance, CPD is studying the feasibility of amending block grant regulations to improve performance.

While we recognize the desire for local flexibility in the program, limitations on rehabilitation activities should be considered because funds are currently being spent on lower priority repairs and for persons not in the greatest need. The great need to improve our Nation's housing stock and the relatively slow progress being made raise the question of whether the Nation can afford the flexibility that now exists in the program.

#### PROGRESS HAS BEEN MADE BUT GREAT NEED STILL EXISTS

Although progress has been made toward meeting the Nation's housing rehabilitation needs, our review and a recent report prepared by HUD's Office of Policy Development and Research both disclosed that communities' rehabilitation needs far surpass

accomplishments. Given past output levels, it would take many years to meet actual rehabilitation needs. 1/

Communities identified a great need for rehabilitation in their housing assistance plans (HAPs). The HAP is a required part of the application for block grant assistance and serves as an assessment of housing conditions and households in need of assistance, an identification of the goals to meet these needs, and a description of the actions to achieve the housing goals. A summary of national housing conditions aggregated from communities' 1979 HAP data shows that the total number of units suitable for rehabilitation was 5,330,865.

We asked the city officials to identify the number of units (1) needing rehabilitation, (2) planned for rehabilitation, and (3) rehabilitated. As shown in the following chart, the output from the rehabilitation programs is small when compared to needs identified in the HAPs. City officials generally based their answers on their 3-year HAP, and the following chart shows their responses. 2/

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1/It should be noted, however, that the block grant program is not the only HUD program under which housing rehabilitation can be conducted.

2/Data was not readily available for three cities included in our review.

<u>City</u>	<u>Units in need of rehabilitation</u>	<u>Units completed</u>	<u>Units planned for 1979, 1980, 1981</u>
A	2,059	500	685
B	1,258	78	100
C	709	78	315
D	159,400	373	3,555
E	10,066	200 (est.)	606
F	14,843	377	425
G	2,964	124	200
H	4,754	54	478
I	210	107	173
J	8,520	1,076	2,700
K	10,025	98	905
L	<u>2,228</u>	<u>581</u>	<u>450</u>
Total	<u>217,036</u>	<u>3,646</u>	<u>10,592</u>

Furthermore, an October 1979 report by HUD's Office of Policy Development and Research entitled "Designing Rehab Programs" stated, after reviewing six cities' rehabilitation programs, "generally the output from the rehabilitation programs is small when compared to needs identified in the HAP." In five of the programs, the report stated that total rehabilitation needs met annually ranged only from less than 1 percent to a high of 12 percent. In our opinion, this magnifies the importance of making the best use of available resources.

COMMUNITIES DESIGN THEIR PROGRAMS AND BUDGET  
SUBSTANTIAL AMOUNTS TO REHABILITATION

HUD's role in local rehabilitation programs focuses on improving local capabilities rather than designing rehabilitation programs. The block grant program by legislative design allows each community the flexibility to set its own program requirements, administrative procedures, and financing techniques. Communities are increasingly emphasizing rehabilitation in their programs. Activities performed include correcting code violations, weatherizing, and cosmetic and emergency repairs.

CPD's Office of Urban Rehabilitation and Community Reinvestment's strategy statement for 1981 states the office's goal for rehabilitation programs is to make a significant, positive difference in local, public, and property rehabilitation programs. For example, HUD plans to provide training and technical assistance to cities and improve program monitoring. All rehabilitation activities the office supports are designed to improve local capabilities in one or more of the following areas:

- Financial resources.
- Staff skills.
- Program design.
- Delivery capacity.

In order to develop and implement a rehabilitation program the community must determine who the program should serve and how the program should be implemented. In terms of program requirements, the community decides on the locations or areas in the city that will receive assistance, the residents eligible to receive assistance, and the level of rehabilitation work to be performed. In terms of program implementation, the community decides on the types of financing techniques used and contracting and inspection procedures.

Cities consider rehabilitation as one of their most important needs and budget substantial amounts to this activity. For each city we visited, we asked city officials to rank all eligible items based on their cities' needs and/or priorities. A majority of city officials ranked rehabilitation as one of the highest priority items on the list.

Furthermore, between 1975 and 1979 funding for rehabilitation activities for the entire block grant program increased steadily as demonstrated by the following table.

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Amount of funds budgeted to rehabilitation (in millions)	\$232	\$327	\$451	\$569	\$824
Percent of total block grant budget	9.5	11.4	13.8	16.9	26.3

HUD's Assistant Secretary for CPD recently estimated that the rehabilitation budget for the 12-month period ending September 30, 1980, was approximately \$1 billion.

BROAD LATITUDE AFFORDED COMMUNITIES  
HAS HINDERED THE EFFECTIVENESS OF  
THE REHABILITATION PROGRAM

Some cities had very spartan rehabilitation programs where only health and safety items were repaired, whereas other programs allowed non-essential or cosmetic repairs. Examples of eligible items cities were funding which we believe are cosmetic or non-essential include

- replacing functional refrigerators and stoves,
- installing new dishwashers and trash compactors,
- installing new carpeting over adequate flooring,
- constructing garages,
- installing burglar alarm systems,
- repairing or replacing driveways, and
- constructing patios and sundecks.

Meanwhile, essential work is not being done on homes which are badly in need of basic repairs. The IG also found that grantees included in their survey were funding repairs, such as garages, driveways, structural additions, and a sundeck, which were not needed to correct housing code violations.

In our opinion repairs or items of the above nature are questionably related to the intent of the block grant program as it relates to providing decent housing and a suitable living environment. Some city officials whose programs did not include the items mentioned above expressed concern over these cosmetic or non-essential repairs and told us they believe these repairs should not be permitted.

As with the range of eligible items permitted, there were wide disparities in income eligibility limits for program beneficiaries, financing techniques, and maximum costs allowed. Eligibility criteria for rehabilitation assistance were based on income and family size or geographic location. Communities with no income limits tied eligibility to location rather than income. That is, if an individual lived within a certain area, he or she could receive assistance, regardless of income. However, this policy permitted middle- and upper-income homeowners to receive block grant assistance. For example, in one city, 31 out of the most recent 200 block grant-assisted loans (between 1978 and 1980) went to persons whose incomes exceeded \$30,000 annually. In another city we visited, a woman whose annual income was \$33,000, received a block grant assisted loan to rehabilitate her personal residence which she valued at \$175,000.

The financing techniques used ranged from direct grants to loans with varying interest charges. The diversity of the various financing techniques is illustrated by the following examples:

- Four cities and one county used grants exclusively either to finance all rehabilitation costs or a certain percentage of the total costs; assistance was based on income and family size.
- Six cities provided either grants or loans. Generally only elderly or low-income persons were eligible for grants. Assistance was based on income and family size. In two of these cities the eligibility for higher interest loans was tied to location rather than income.
- Two cities used deferred payment loans with assistance based on family size and income.
- One city used both deferred payment loans and low interest loans; assistance was based on income and family size.

In a survey of about 1,100 rehabilitated properties, HUD's IG identified over 20 different methods of providing financial assistance. Appendix I shows the extent these various methods were used. Thus, persons receiving assistance in some communities would be ineligible for the same type of assistance in other communities. This raises a question of equity among the various local programs.

Probably the most striking variance we noted was the difference in maximum amounts allowed for rehabilitation work. Maximum assistance ranged from \$1,500 to \$15,000 for work financed by grants and from \$6,000 to \$35,000 for work financed by loans. Obviously, these disparities allow for substantial differences in the amount and types of rehabilitation work performed.

HUD INSPECTOR GENERAL REVIEW OF  
REHABILITATION ACTIVITIES HAS  
IDENTIFIED SIGNIFICANT WEAKNESSES

A recent review conducted by HUD's IG identified several program abuses and administrative weaknesses in block grant rehabilitation activities which minimize the program's accomplishments and effectiveness. HUD's IG recommended developing various administrative requirements to control these problems, but HUD's Assistant Secretary for CPD disagreed with these recommendations and stated that further monitoring, not administrative requirements, would solve the problems identified.



## Inspector General report

The IG's office issued a nationwide operational survey of block grant rehabilitation activities in November 1980. The survey's objectives were to identify possible irregularities and/or abuse and administrative weaknesses, and the extent thereof, in the operation of block grant rehabilitation activities. The survey included a review of 97 entitlement grantees and 1,119 of about 20,490 properties approved for rehabilitation between July 1, 1978, and June 30, 1979. The IG reviewed HUD field office records and interviewed HUD staff responsible for monitoring the program. The IG reviewed grantee procedures for administering the rehabilitation activities, reviewed selected case files, interviewed recipients, and inspected repairs. Irregularities or abuses identified included

- contractors that billed for and were paid for work not done,
- grantees that certified work done when it was not, and
- grantees and contractors that possibly worked together to arrive at excessive costs.

Also, the IG projected that grantees contracted for repairs of approximately \$106 million on housing which had or will have at least one serious housing quality standard violation after the rehabilitation was complete. The IG stated that spending such a large portion of block grant funds for repairs to housing which will not be free of health and safety hazards after repairs are made is contrary to the program's primary objective.

The more prevalent administrative weaknesses included

- initial inspections that were not performed or documented,
- cost estimates that were not always prepared,
- vague work writeups, and
- final inspections that were not performed or documented.

(Appendix II shows administrative weaknesses and the percent of grantees experiencing these weaknesses.)

The IG attributed the weaknesses to the grantees' inexperience with rehabilitation programs and to HUD's lack of established, specific administrative procedures for grantees to follow.

The IG recognized that the lack of specific procedural requirements affords grantees flexibility in providing assistance. In recommending corrective actions, the IG recognized that these actions will reduce the amount of flexibility grantees have.

However, the IG strongly believes corrective actions are needed to assure that block grant funds are used efficiently, effectively, and economically and that the actions will not adversely affect the flexibility.

HUD's IG recommended that the Assistant Secretary should:

- Develop and publish specific administrative requirements that grantees must meet.
- Limit the percentage of a grantee's rehabilitation budget which can be used for repairing properties that will not meet housing quality standards.
- Issue a notice to all grantees and HUD field offices reiterating the requirements for counting rehabilitation units toward HAP goals. Specifically, units proposed must be substandard and upon completion of rehabilitation, meet minimum housing quality standards and be occupied by lower income households.

To avoid duplicating the IG's efforts, we did not review administrative procedures in detail. However, we noted variances in implementing administrative procedures. For example, some cities prepared more detailed work specifications than others. Some recently completed repairs were in poor condition and repair items listed in the contract were not done.

#### CPD response to Inspector General report

In its October 1980 response to the IG's draft report, CPD stated concern over the weaknesses identified. However, CPD does not believe that the problems cited are the result of the administrative flexibility which localities have been provided. CPD's response to HUD's IG states the Office of Inspector General survey indicates most localities already require initial inspections, require work write-ups, and require final inspections. Therefore, in their view, the problems are not related to the lack of administrative procedures but to the local staff capacity and skill.

The response states that CPD believes it has initiated activities necessary to both increase local expertise and eliminate critical problems in rehabilitation programs, including

- a major expansion of rehabilitation staffs in each area office,
- a major technical assistance effort made available through the Community Rehabilitation Training Center, and
- an addition to the comprehensive monitoring handbook on review of rehabilitation activities.

The Assistant Secretary did acknowledge, however, that the survey findings make it clear that ongoing monitoring and technical assistance efforts need to be strengthened. He stated, however, that "improved monitoring and problem assessment are of little value unless there is some method to assure improvements in performance." Responding to the IG survey, CPD stated that it planned to study the feasibility of the following proposals:

- Increase monitoring of local program performance by outside parties, rehabilitation management specialists, and CPD representatives.
- Amend block grant regulations to allow HUD monitors to (1) cite local rehabilitation programs for failing to meet standards of effective performance and (2) impose sanctions for failure to improve performance.
- Expand technical assistance activities and training in order to respond to the problems identified through monitoring.

In November 1980, CPD issued a notice on monitoring review of rehabilitation activities by CPD representatives and other nonspecialist staff. The notice provides more specific instructions for implementing monitoring reviews of local community rehabilitation activities and provides guidance for proper training of nonspecialist staff to satisfactorily perform these duties.

Specifically, the notice calls for the area manager to develop a monitoring schedule in order to meet an operating plan requirement for rehabilitation review. In addition to selecting rehabilitation projects for progress, benefit, and HAP reviews, the notice states that limited reviews of rehabilitation should be done in at least 50 percent of the block grant entitlement grantees where an in-depth review by the rehabilitation management specialist is not scheduled.

The Director of HUD's Office of Urban Rehabilitation and Community Reinvestment told us that standards for grantee performance are being developed, focusing on program efficiency and quality of rehabilitation work. He said that these standards coupled with technical assistance should help reduce the types of inefficiencies which we observed during our review. Consequently, he said he would not advocate specific program limitations to preclude the types of problems we observed (i.e., assistance to high-income persons and allowing non-essential and luxury type items). While we believe the steps HUD plans to take are positive, they will not preclude the problems we observed if cities do not voluntarily choose to discontinue these practices. Thus, we believe that program limitations may need to be considered to minimize the types of problems we observed.

## CONCLUSIONS

Despite the accomplishments of block grant-supported rehabilitation efforts, a large number of homes still need rehabilitation. HUD's reports recognize that program output is small compared to rehabilitation needs. Given these great needs, we believe it is important that the limited resources available for this purpose be used as efficiently as possible.

The broad flexibility, however, afforded communities in designing and operating their block grant-supported rehabilitation programs has hindered their effectiveness. For example, some grantees allowed non-essential rehabilitation work to be funded and provided assistance to relatively high-income persons. In addition, we observed a large range in the limits of assistance under the various programs, which raises the question of equity.

Our work supports the IG's findings in terms of evidence of unneeded repairs and poor quality workmanship. CPD, in response to the IG's findings, is considering the following: increasing monitoring and technical assistance and amending block grant regulations to include standards of effective performance.

## RECOMMENDATION TO THE CONGRESS

While we recognize that the block grant program's legislative history provides for local flexibility in administering the program, our review has identified shortcomings which raise questions as to whether local flexibility should be tempered with more Federal guidance on the overall limitations within which cities can operate their block grant programs.

Because of the deficiencies identified in our review and recognizing that the Federal resources available to meet the revitalization needs of our Nation's cities are limited, we recommend that the appropriate congressional committees examine the overall impact of assistance provided under the block grant program and identify additional measures needed to meet the objectives of the Housing and Community Development Act of 1974. Specifically, the following issues should be considered:

- The need for all grantees to concentrate their block grant funds in distressed geographic areas small enough so that visible improvements are achievable in a reasonable time period; and to ensure that claimed benefits to low- and moderate-income persons are, in actuality, occurring.
- The need to reduce the broad list of activities currently eligible under the program to focus on those activities which meet the cities' most urgent revitalization needs. Some activities, public services for example, might more

appropriately be funded by other Federal agencies, with the knowledge of and expertise to administer and establish priorities for these activities.

--The need to develop overall income eligibility requirements for recipients of block grant-supported rehabilitation. Such limits would result in increasing the number of low- and moderate-income persons who could be served by the program.

--The need to limit eligible rehabilitation work to that which is essential to restore the housing unit to a safe, decent, and sanitary condition, specifically prohibiting non-essential and luxury items, so that more homes needing basic repairs can be rehabilitated.

Congressional examination of this program would also help the Congress in considering the administration's proposal to restructure HUD's community development assistance programs into a more efficient and flexible grant mechanism. Targeting and additional Federal guidance on eligible items--two of the topics which we believe should be the subject of congressional examination--could increase the program's impact and help reduce the effect of proposed budget cuts without excessive Federal intervention in the program's day-to-day operations.

## CHAPTER 4

### HUD OVERSIGHT OF THE BLOCK GRANT PROGRAM--

#### MONITORING CHANGES HAVE BEEN MADE BUT CONTROLS

#### OVER GRANTEE EXPENDITURES SHOULD BE FURTHER ANALYZED

We, HUD's IG, and independent analysts have all been critical of HUD's oversight of the block grant program. For example, in August 1978 we reported <sup>1/</sup> that HUD lacked the basic tools to adequately monitor and evaluate grantee performance. Specifically, we reported that there was a lack of guidance to field personnel for making substantial assessments of grantee performance, and the information developed by grantees on their own performance was often incomplete and vague.

In the last 2 years, HUD has taken several steps to strengthen its monitoring of block grant recipients. Examples of steps HUD has taken include developing a comprehensive monitoring handbook, revising the grantee performance report, providing training to its area offices, conducting in-depth evaluations of about 25 local block grant programs each year, and preparing a summary of program accomplishments. These actions appear promising in addressing past program monitoring problems, but it is too early to fully determine their effect.

Program progress also has been measured substantially by the rate at which funds are spent by grantees. In our report "Analysis of Community Development Block Grant Drawdown Rates" (CED-80-137, Aug. 20, 1980), we reported that the emphasis HUD put on spending block grant funds created the potential for ineffective and inappropriate use of such funds. In October 1980, HUD issued a notice to its field offices emphasizing that other indicators of program progress should also be considered.

HUD's IG, independent public accountants (IPAs), and city comptrollers, as well as HUD's selected city briefings, have identified weaknesses in grantees' controls over block grant expenditures. These reviews are essential to control fraud, abuse, and waste in the program. We also identified problems in controls over expenditures of block grant funds. We noted that audits of block grant recipients have questioned and/or disallowed substantial amounts of block grant funds. Given the importance of adequate controls in preventing fraud, abuse, and waste, we believe HUD's IG should conduct an analysis to identify the extent of grantees' expenditure control problems and, if warranted, to

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<sup>1/</sup>"Management and Evaluation of the Community Development Block Grant Program Need To Be Strengthened" (CED-78-160, Aug. 30, 1978).

do additional work to identify the causes for these problems and possible solutions.

HUD'S MONITORING OF THE BLOCK GRANT PROGRAM HAS BEEN CRITICIZED

We and HUD's IG have criticized HUD's monitoring of grantees. Past problems have included (1) a lack of adequate guidance to field offices to properly monitor the program, including measurable performance standards, (2) weaknesses in the grantee performance report, including incomplete and vague data, and (3) an over-reliance on grantee spending rates as a measure of program progress.

Our reports on block grant management and evaluation

Our August 1978 report pointed out various deficiencies. We stated that, although the program's legislative history emphasizes the importance of HUD postaudits and reviews, HUD had not fulfilled this responsibility to a satisfactory degree. It was also noted that HUD had not adequately addressed substantive issues or emphasized the monitoring function and it did not have adequate standards, criteria, and performance data to evaluate community performance and progress. Our report identified such additional problems as vaguely described activities in applications and incomplete data in grantee performance reports.

The report concluded that HUD had neither required nor obtained the information needed to determine whether grantees are using block grant funds to meet legislative objectives. HUD procedures and requirements for grantee applications for funds, annual grantee reports on performance, and HUD field staff monitoring of grantee performance suffered from inadequate measurable performance standards. Such standards--when applied to grantee-planned activities--would provide the grantee and HUD with a more objective basis to evaluate performance; assess progress toward meeting community and legislative objectives; and determine future-year program needs, direction, and priorities. Without such standards, grantee performance and progress were not measurable, and HUD lacked assurance that program funds were being used in accordance with legislative objectives.

Essentially, the report recommended that HUD

--revise the grantee performance report to require specific information on grantee goals, objectives, and activity performance standards and

--revise its monitoring handbook to assure that it provides guidance to field personnel for making substantive assessments of grantee performance.

In the August 1980 report on drawdown rates, we concluded that the emphasis HUD put on spending block grant funds in directives and guidance to its administrators created the potential for inappropriate and ineffective use of block grant funds. These policies and procedures place substantial emphasis on improving drawdown rates. Slow-spending grantees were encouraged by HUD to improve their spending rates, were put on spending schedules, and told that if funds were not used reduced funding would result.

HUD Inspector General criticizes  
block grant monitoring

In each of his last three semiannual reports to the Congress, HUD's IG has been critical of HUD's monitoring. The October 31, 1979, report stated that

"Our audit reports during the current program period once again disclosed instances wherein problems and deficiencies on the part of program participants were going undetected and uncorrected due to insufficient on-site reviews by HUD Field personnel."

The April 30, 1980, report stated that during the reporting period, the IG's Office continued to disclose matters on HUD's inadequate monitoring of program recipients. The October 31, 1980, report stated that despite the importance of monitoring, instances of inadequate HUD monitoring continued to be detected. One example cited in this report stated:

"During the current reporting period, we also completed a review of social service activities in the Community Development Block Grant Program in three of HUD's Regions. Our review disclosed weaknesses in HUD Area Offices' monitoring of grantees' compliance with social service requirements. This lack of monitoring contributed to grantees' neglecting their own monitoring responsibilities and thus permitted program deficiencies to go undetected."

MONITORING CHANGES MADE BY HUD  
APPEAR PROMISING, BUT IT IS TOO  
SOON TO FULLY DETERMINE THEIR EFFECT

HUD has been responsive to past problems in its oversight of the block grant program. It has made several changes within the last 2 years in the system it uses to monitor block grant recipients. HUD has provided area offices detailed guidance on monitoring grantees, revised the grantee performance report (instructions are being prepared on how to evaluate these reports), conducted in-depth evaluations of a limited number of grantees, and provided training to area office monitors. These steps and others have helped develop an improved framework for



monitoring block grant recipients. While these changes appear promising, it is too soon to fully determine their effect.

Changes HUD has made in its monitoring system include:

- HUD priority objectives for fiscal years 1979, 1980, and 1981 all contain specific monitoring goals; for example, all entitlement grantees must be monitored in four priority areas (program progress, benefit, housing assistance plans, and citizen participation).
- HUD produced a comprehensive block grant monitoring handbook which details CPD monitoring requirements more comprehensively than past instructions. During fiscal year 1979, field staff used this handbook to monitor grantees.
- The grantee performance report has been substantially changed during fiscal year 1980, and a handbook detailing review techniques and procedures was undergoing clearance as of February 1981.
- HUD sponsored a series of in-depth monitoring training courses during fiscal years 1979 and 1980 which directly involved about 350 field staff members. Additionally, training is planned in fiscal year 1981 for another 120 field employees in monitoring and using the new grantee performance report.
- A "critical or selected city" review process has been established which supplements normal monitoring efforts for approximately 25 grantees each year. Under this process, a list of entitlement communities is identified at the beginning of each year which, because of grantee size and/or problems, require special attention. Field staff from the appropriate area offices discuss significant issues concerning the grantee's performance and application with HUD headquarters officials. During fiscal years 1979 and 1980, approximately 50 such briefings had been conducted.
- A performance evaluation system has been instituted which entails the on-site review of community planning and development functions in each area office on a periodic (normally 2 years) basis by a HUD central office review team. One focus of this evaluation process is the quality of the monitoring systems established in each area office.
- HUD has established a procedure for annually rating every area office in all program areas, including monitoring. This system required HUD's central office staff to review a representative sample of all monitoring letters received in the central office during fiscal year 1980 with each letter being rated in 26 specific areas.

In addition, in October 1980, HUD issued a notice to its field offices pointing out that spending levels are only one measure of program progress and that other factors should be considered in analyzing problems of slow-spending grantees, including

- the latest grantee performance report and documentation developed during the review of the grantee performance report;
- the trip report, monitoring letter, and grantee response from the latest on-site monitoring visit which covered program progress; and
- analysis and documentation on program progress developed during the last annual in-house review.

While the steps HUD has taken are positive, their actual impact in improving program monitoring, operations, and effectiveness still depends heavily on how well area offices implement the procedures. We noted examples indicating that some problems still exist. For example, for one grantee

- the city was without a HUD representative for 8 months,
- the area office could produce documentation of only one monitoring visit to the grantee for the last 3 years, and
- the most recent grantee performance report lacked important information supporting claims of direct program benefits to low- and moderate-income people. (The HUD representative acknowledged this as a serious deficiency.)

At one grantee we visited, the city had large surpluses of block grant funds on hand on each of three dates:

<u>Date</u>	<u>Funds on hand</u>
September 2, 1980	\$14,633,745
October 1, 1980	10,260,373
October 31, 1980	5,776,916

According to city officials, the reason for these large surpluses is that they did not establish a \$10 million special escrow account after the funds had been drawn down for that purpose. HUD area office officials were unaware of the surplus

or that the funds drawn down for the escrow account had not been used for the approved purpose. After we brought it to his attention, the HUD program manager responsible for this city said he would investigate this matter during his next monitoring visit.

FURTHER ANALYSIS IS NEEDED TO  
DETERMINE THE EXTENT OF PROBLEMS IN  
CONTROLS OVER GRANTEE EXPENDITURES  
OF BLOCK GRANT FUNDS

Although it was not included in the scope of our work, our review, as well as HUD's IG reports, IPA audits, and city comptroller reviews, have identified many examples where inadequate information and controls exist to assure that program expenditures are for eligible items and are adequately supported and/or justified. Examples of weaknesses or deficiencies include funds spent on ineligible items, goods or services paid for but not received, existence of weak financial systems or procedures, and inability to compare expenditures to budgeted amounts. Our analysis of these previous audits and reviews of block grant expenditures, as well as examples disclosed in our review, raises serious concern that these identified problems or weaknesses could be pervasive in the block grant program.

Examples of problems in control over program expenditures identified in our review include:

- At one grantee we visited, an IPA report for program years 1976, 1977, and 1978 stated that because of deficiencies in the grantee's accounting system, it was not possible to readily determine program expenditures at periodic reporting dates. Since expenditures were not classified by program year, they could not be compared to budgeted amounts in the approved grant applications. A city block grant official told us that a new computerized accounting system for reporting expenditures matches every charge to a project to a specific code number and Federal grant number. The system provides monthly, quarterly, and annual reports on expenditures. While reviewing the computer printout for expenditures, however, we noticed that incorrect entries were made for amounts expended. A city block grant official said the errors were due to programing problems.
- For another grantee, after over 5 program years, HUD had received only one approved audit of the grantee's operations. The area office responsible for this city noted that although about 88 percent of the city's block grant funds had been spent, HUD was unable to reconcile obligations and physical accomplishments with actual drawdowns due to the city's totally unacceptable financial management system.

--One city comptroller's report we examined identified the following examples of inadequate controls:

- (1) Administrative and operational practices were deficient.
- (2) Bank accounts had not been reconciled since inception.
- (3) Interest earned on cash deposits was transferred to the city's general fund instead of to the Federal Government.

--Nine of 24 selected-city briefing memorandums we reviewed identified problems in grantees' controls over expenditures, and included such comments as:

- (1) "The financial management system was so weak that program managers could not obtain current complete data on the status of funds."
- (2) "The City continues, despite several mutual attempts to resolve them, to have eight outstanding RIGA [Regional Inspector General for Audit] monitoring findings. The essential problem revolves around financial management as opposed to program performance."
- (3) A HUD audit of the city's block grant program had several findings of importance. "Disallowed costs total \$486,923 and questioned costs total \$256,210."
- (4) "Open findings remain from the second audit, dated July 26, 1978; many have been carried over into the third audit, dated January 23, 1980. RIGA [Regional Inspector General for Audit] has not yet accepted that report, which questioned costs of \$28,163,076 for the period of July 1, 1977 to June 30, 1978."

--At another grantee, HUD had only recently approved the IPA reports for program years 1975 and 1976. HUD's regional IG in his audit rejection memorandum stated that the city's indirect cost rate was incorrect and as a result \$3.2 million in indirect costs charged to the program were doubtful. The Department of Justice is conducting a criminal investigation of certain matters related to irregularities in program expenditures in this city's block grant program. Certain aspects of another city's block grant program was also under investigation by the Department of Justice.

HUD Inspector General identifies significant problems

In an April 3, 1978, memorandum, the IG'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 70 percent of the grantees had one or more findings involving financial reviews. On an overall basis, about 55 percent of the 175 grantees were cited for deficiencies in accounting and budgeting. The summary pointed out the following types of problems: grantees did not maintain their books of account adequately and/or failed to establish all required books of account; and grantees did not maintain proper control over cash disbursements.

In a similar memorandum of July 22, 1980, the IG's office noted that all but 3 of the 107 audit reports on block grant recipients contained audit findings. The 107 audit reports disclosed about \$2.7 million of disallowed costs and \$19.6 million of questioned costs and included several frequently recurring problems such as charging ineligible costs and inadequately supported costs to the block grant program (this was the most prevalent problem and accounted for about 88 percent of the total disallowed costs and 38 percent of the total questioned costs); grantees drawing down block grant funds and holding them in excess of their needs; and charging block grant funds 100 percent for activities which should have been allocated between block grant and other community programs.

In an October 1980 semiannual report to the Congress, the HUD IG cited several grantees as having significant deficiencies. Following are examples included in the IG's report illustrating grantee expenditure deficiencies at block grant recipients.

--City A's report disclosed 15 major findings and disallowed costs of \$1.8 million. The report identified several deficiencies, including (1) the city's failure to reimburse the block grant program for ineligible expenditures, (2) insufficient opportunities for neighborhood citizens to participate in the block grant program, (3) ineffective administration of rehabilitation activities; the City's programs to revitalize commercial areas; and property acquisition and relocation activities, (4) excessive draw-downs of funds, and (5) deficiencies in the procedures for accepting and processing sealed bids for construction work.

--City B's controller's report contained 49 audit findings, questioning about \$28.2 million of block grant program costs. Of this amount, about \$15.3 million could not be audited because the city controller was denied access to an IPA's workpapers. In addition, the records of a fund project area committee were under grand jury investigation, and records of three block grant operating agencies were

in the custody of the U.S. attorney. As of September 30, 1980, a total of \$27.7 million of questioned costs had not been resolved.

- City C's report included 24 audit findings and disclosed disallowed costs totaling \$1.02 million and questioned costs totaling \$4.08 million. The overall conclusion was that the mismanagement and lack of fiscal responsibility on the part of the local agency in administering its block grant program resulted in a serious fiscal crisis. Problems were evidenced by the failure to maintain adequate accounting records and controls over program expenditures and activities as well as its failure to engage in effective monitoring and evaluation of program activities.
- City D's audit report contained 19 findings which included disallowed costs totaling about \$1.7 million and questioned costs totaling \$1.6 million. The overall conclusion was that the grantee did not administer its block grant program in an economical and efficient manner.
- City E's comptroller's audit report covering the third and fourth program years of the city's community development block grant program contains questioned and disallowed costs totaling \$110 million.

IG reports have identified significant problems relating to controls over grantee expenditures of block grant funds. These reports, however, have been on individual grantee operations, rather than for the purpose of identifying systematic problems which may exist with a majority of grantees. Some of the findings disclosed in these reports, however, raise concern that the problems with grantee controls over expenditures may be pervasive in the block grant program. Consequently, we believe more needs to be done to identify the extent, frequency, causes of, and solutions to identified problems.

## CONCLUSIONS

HUD has responded to identified weaknesses in its monitoring of block grant recipients by making several changes in its monitoring system during the past 2 years. These changes appear promising in responding to past deficiencies, but their success is contingent on how well the new procedures are actually implemented. These procedures had not been in effect long enough for us to fully determine their impact on solving past problems.

While controls over grantee expenditures were not part of our review, we felt that the number and magnitude of these types of problems which came to our attention during our work necessitated including this issue in this report. We noted that audits of grantees by HUD's IG, IPAs, and city comptrollers, as well as HUD's selected-city briefings, have identified weaknesses in grantees' controls over block grant expenditures. The frequency of

such problems at the grantee level and, more importantly, the identification of basic causes of the problems and the solutions to them are questions which have not been answered by HUD or its IG or us. Consequently, we cannot make recommendations on how to solve this potentially serious problem at this time.

Nevertheless, we are concerned that these deficiencies could be pervasive. The administration has recently focused on eliminating fraud, abuse, and waste. We believe there is a need to identify, on a current basis, the extent and scope of problems in grantees' controls over expenditures. If such problems are found to be occurring to a substantial degree, we believe that a full-scale review should be conducted to identify the basic causes of these problems and solutions to them. This analysis is needed, in our opinion, to minimize the potential for fraud, abuse, and waste and to maximize the impact of available resources.

We believe the analysis of the extent, causes, and solutions to problems in grantees' controls over expenditures should be conducted by HUD's IG in conjunction with his responsibility to describe significant problems, abuses, and deficiencies relating to the operations of HUD, and to make applicable recommendations.

#### RECOMMENDATION TO THE SECRETARY, HUD

We recommend that the Secretary direct the Inspector General to conduct an analysis to determine the extent of problems in grantees' controls over expenditures of block grant funds and to recommend solutions to these problems. Such an analysis could be performed in two phases. The first phase should assess whether or to what degree such problems continue to exist. The second phase, if warranted, should concentrate on identifying the basic causes of the problems and suggesting corrective actions.

SAMPLE OF  
FINANCING TECHNIQUES USED IN COMMUNITY DEVELOPMENT  
BLOCK GRANT REHABILITATION ACTIVITIES

<u>Type of assistance</u>	<u>Total</u>
Direct grant	445
Partial grant	245
Direct loan	118
Partial loan	10
Forgivable loan	11
Deferred loan	41
Guaranteed loan	10
Interest subsidy	85
Direct grant + direct loan	50
Direct grant + section 312 loan	20
Direct grant + deferred loan	15
Direct grant + private loan	15
Direct grant + interest subsidy	1
Direct grant + deferred loan + private loan	2
Direct grant + direct loan + deferred loan	2
Direct grant + direct loan + interest subsidy	2
Partial grant + private loan (homeowner funds)	4
Direct loan + deferred loan	8
Direct loan + forgivable loan	7
Direct loan + section 312 loan	2
Direct loan + State or other public loans	1



## APPENDIX I

## APPENDIX I

<u>Type of assistance</u>	<u>Total</u>
Forgivable loan + interest subsidy	1
Deferred loan + private loan	1
Interest subsidy + homeowner funds	1
Not determined	<u>22</u>
Total	<u><u>1,119</u></u>

Source: HUD IG's "Report on Special Operational Survey, CDBG Rehabilitation Activities," November 7, 1980.

SAMPLE OF  
ADMINISTRATIVE WEAKNESSES IDENTIFIED BY HUD'S INSPECTOR GENERAL

<u>Weakness</u>	<u>Percent of grantees having weaknesses</u>
1. Grantee did not always make or document initial property inspection.	22
2. Grantee did not always prepare work writeups.	16
3. Grantee prepared vague and unclear writeups.	52
4. Grantee did not always prepare cost estimates.	50
5. Grantee did not encourage open and free competition in awarding contracts:	31
a) did not require or document files to show they obtained more than one bid	
b) did not award contracts to lowest bidder or prepare a written justification	
c) did not use formal contracts or contract change orders	
d) did not use contractor rotation list in a manner to encourage competition	
6. Grantees did not make thorough final inspections.	28

Source: HUD IG's "Report on Special Operational Survey, CDBG Rehabilitation Activities," November 7, 1980.

LISTING OF GRANTEESGAO VISITED

Alexandria, Virginia  
Aurora, Illinois  
Binghamton, New York  
Camden, New Jersey  
Chicago, Illinois  
Elgin, Illinois  
Green Bay, Wisconsin  
Hennepin County, Minnesota  
Knoxville, Tennessee  
Minneapolis, Minnesota  
Newark, New Jersey  
Poughkeepsie, New York  
Rochester, New York  
San Diego, California  
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