

GAO

November 1991

# COMMUNITY DEVELOPMENT

## HUD Oversight of the Dallas Block Grant Program Needs Improvement



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Resources, Community, and  
Economic Development Division

B-241140

November 27, 1991

The Honorable Martin Frost  
House of Representatives

The Honorable John Bryant  
House of Representatives

This report responds to your request that we determine whether the Department of Housing and Urban Development (HUD) provided adequate oversight and monitoring of the Dallas Community Development Block Grant (CDBG) program. As the basis for your concern, you cited newspaper articles that alleged poor administration of CDBG-funded housing programs by the city of Dallas. In reviewing the effectiveness of HUD monitoring, you asked that we specifically focus on HUD's monitoring of the city's (1) timely expenditure of CDBG funds, (2) use of CDBG funds for enforcement of local housing codes, (3) control over sub-recipients, and (4) accounting for planning and administrative costs.

## Results in Brief

In summary, HUD did not provide adequate oversight and monitoring of Dallas' CDBG activities. Specifically, we found that:

- HUD guidance on monitoring the timely use of CDBG funds emphasizes the rate of overall program expenditure rather than identifying the cause of slow spending on specific projects. As a result, in monitoring the Dallas CDBG program, HUD did not identify that the city was not complying with HUD's standard for timely use of CDBG funds primarily because of one large project that had used very little of its allocated funds. Without identifying the cause of the city's expenditure delay, HUD conditioned the city's entire 1989 and 1990 grants by requiring the city to spend its CDBG funds quicker or risk loss of the funds. In response, the city, in part, reprogrammed funds to lower-priority activities in an attempt to spend funds more quickly.
- Because HUD did not monitor annual expenditures of more than \$2 million for code enforcement, it did not detect that the city had improperly charged the CDBG program for salaries of code enforcement staff that did not work full-time on CDBG projects.
- While HUD monitoring reports generally concluded that the city's sub-recipient monitoring system was adequate, independent audit reports found that the system did not meet Office of Management and Budget (OMB) requirements such as formal, written monitoring procedures, adequate supervision of monitors, and procedures to ensure that corrective

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action is taken on findings. In addition, HUD did not take effective action to correct recurring problems with delinquent subrecipient audits.

- Annual appropriation acts and CDBG regulations permit cities to use no more than 20 percent of their CDBG funds for planning and administrative expenses. However, with few exceptions, HUD allows cities to report similar expenses incurred by subrecipients as program activity costs. As a result, the true costs of planning and administrating CDBG programs are not known and may be significantly understated. In 1990, the city of Dallas had planning and administrative expenses of 20 percent—the maximum allowed. If subrecipient planning and administrative expenses were identified and reported as such, Dallas would have exceeded the 20-percent limitation.

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## Background

The primary objective of the CDBG program is to develop viable urban communities, by providing decent housing and a suitable living environment and by expanding economic development opportunities—principally for low- and moderate-income persons. The CDBG program provides federal funds, according to a predetermined formula, for metropolitan cities and urban counties (entitlement communities). Each grantee develops its own program to meet these goals and establishes funding priorities. Grantees may use CDBG funds for a variety of activities, including housing, public works, economic development, public services, acquisition, and administration. These activities may be carried out directly by the grantee or by subrecipients—generally public, quasi-public, or private, nonprofit agencies.

The CDBG entitlement program began in 1975 with national funding of \$2.2 billion for 594 entitlement communities. In fiscal year 1990, national program funding amounted to \$2.0 billion for 844 communities. CDBG funding for the city of Dallas, an entitlement community, has averaged about \$13.44 million for fiscal years 1987 through 1990. The city's 1991 fiscal year grant was \$12.68 million.

Section 104(e) of the Housing and Community Development Act of 1974, as amended, requires that HUD, at least annually, make such reviews and audits of entitlement grantees as may be necessary or appropriate to determine, among other things, whether the grantees have carried out activities receiving CDBG funds in a timely manner and in accordance with the act. HUD's Community Planning and Development (CPD) Monitoring Handbook establishes standards and provides guidance for monitoring CDBG programs, including guidance for planning monitoring activities, reporting the results of monitoring, promoting corrective

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action, and following up on findings. According to this handbook, the overriding goal of monitoring should be to identify deficiencies and promote corrections in order to improve, reinforce, or augment grantee performance. HUD's Fort Worth Regional Office is responsible for monitoring the Dallas CDBG program.

Following local newspaper articles alleging waste and mismanagement of Dallas CDBG funds, the Dallas City Manager commissioned a certified public accounting (CPA) firm in May 1990 to perform a financial and compliance audit of the city's CDBG program. Also, in May 1990, at the City Manager's request, HUD's Inspector General (IG) initiated an audit that focused on the city's CDBG-funded subrecipient activities. The CPA's October 1990 audit report and the IG's March 1991 report<sup>1</sup> both reported serious weaknesses in the city's CDBG program, including ineligible use of CDBG funds and inadequate controls over subrecipients.

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## HUD Monitoring Did Not Identify Cause of Expenditure Delays

HUD monitoring reports for 1987 through 1990 disclosed that the city of Dallas failed to spend grant funds in accordance with CDBG timeliness regulations. HUD initially attempted to correct this problem through such techniques as directing the city to establish deadlines for activities and to develop expenditure schedules. The purpose of these actions was to get the city to make timely use of its CDBG funds, but HUD's efforts were unsuccessful. Consequently, in September 1989 and 1990, HUD added a condition to the city's CDBG grant agreement requiring the city to fully comply with the timeliness standard by July 31, 1991, or risk a reduction in grant funds. However, neither the monitoring reports nor HUD monitoring files provide evidence that either HUD or the city determined why the city was unable to use CDBG funds within prescribed time frames. On July 24, 1991, the Fort Worth Regional Office informed the city of Dallas that the balance in the city's line of credit as of June 30, 1991, was \$18,012,629, or the equivalent of 1.42 years' funds, and that therefore the city had met the contract condition.

According to HUD regulations, a grantee is considered to be carrying out its CDBG activities in a timely manner if, 60 days prior to the end of its current program year, the amount of its grant funds that are available from the U.S. Treasury but undisbursed is less than 1.5 times the grant amount for its current program year. The regulations also provide that

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<sup>1</sup>Community Development Block Grant Program, Management Control Over Program and Subrecipient Activities, Dallas, Texas, HUD, Office of Inspector General, No. 91-FW-241-1005 (Mar. 29, 1991).

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for recipients that have received at least two consecutive grants, the amount of grant funds disbursed by the U.S. Treasury to the recipient during the previous 12-month period must be equal to or greater than one-half of the grant amount for its current program year.

While HUD's monitoring handbook states that the overriding goal of monitoring is to identify deficiencies and promote correction, guidance for reviewing timeliness does not require monitors to identify the reasons for the city's slow spending on specific projects. Rather, HUD monitoring for timeliness emphasizes only the rate of overall program expenditures. HUD headquarters officials said that regional office monitoring staff are not required to identify the cause for lack of progress for individual CDBG projects.

Our analysis disclosed that the city did not meet the CDBG timeliness standard from 1987 to 1990 primarily because of one activity—a Revolving Loan Fund (RLF)—which the city established in fiscal year 1987 to provide loans for the rehabilitation and construction of housing for low- and moderate-income persons. The city initially allocated \$4.6 million to the fund. Although the city did not use any RLF funds in 1987, an additional \$5.64 million was allocated in fiscal year 1988. Of the total \$10.24 million, only \$140,480 was expended during this 2-year period without any reported accomplishments. Records show that the city did not award a contract for use of the RLF funds until February 1988. Cumulative unused RLF funds totaled \$8.18 million in 1989 and \$4.29 million in 1990. The amount of unused RLF funds alone were enough to keep the city from complying with the timeliness standard in 1988, 1989, and 1990. While HUD does not approve individual CDBG projects, monitoring staff told us that they believed the initial RLF allocation of \$4.6 million in fiscal year 1987 was excessive based on the city's past performance and that this affected the city's ability to meet the timeliness standard. HUD monitoring reports, however, do not include any specific statements regarding the RLF until 1990, at which time it was mentioned as a slow-moving activity.

Without addressing the cause of expenditure delays in its monitoring reports, HUD conditioned the city's entire 1989 and 1990 grants, requiring the city to spend its CDBG funds quicker or risk loss of the funds. The city's response to HUD's grant conditions included reprogramming funds to activities that were not in the city's current CDBG allocation plan so that funds could be spent quicker and placing greater emphasis on funding new activities that could be implemented quickly. As we reported as early as 1980, overemphasis on the pace of total

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annual expenditures can contribute to less than optimum use of CDBG funds.<sup>2</sup> The city of Dallas Housing Compliance Officer told us that the city has reprogrammed CDBG funds to activities that were not the city's highest priority of need in an attempt to spend funds quicker and comply with HUD's timeliness standard. This reprogramming results in CDBG funds being used for lower-priority projects.

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## HUD Monitoring Did Not Identify Improper Code Enforcement Charges

Although Dallas consistently spent a large proportion of its CDBG funds on code enforcement activities, HUD did not monitor these expenditures to ensure that the funds were used in compliance with CDBG regulations. As a result, HUD's monitoring did not detect improper charges made to the CDBG program as identified by an independent audit and HUD's IG. City CDBG program fund allocations and expenditure reports provided to HUD state that between 1987 and 1990, the city utilized an average of \$2.6 million of its CDBG funds each year for code enforcement, or over 19 percent of the city's average annual grant. In comparison, nationwide code enforcement expenditures by all entitlement grantees averaged less than 1.5 percent of total entitlement grant funds in fiscal years 1987 and 1988 where such data were available.

According to the CPD Monitoring Handbook, in planning its annual monitoring program, HUD regional offices should perform a risk analysis to determine how best to use its monitoring resources. The risk analysis process is intended to identify program areas to be monitored based on which CDBG activities represent the greatest vulnerability to fraud, waste, and mismanagement.

HUD's Fort Worth Regional Director, Office of Community Planning and Development, told us that his staff did not monitor the city's code enforcement expenditures because of the relative low risk of the activity compared with other activities. HUD regional officials further said that code enforcement is an eligible activity under the CDBG program and that they had no reason to question the city's use of funds for code enforcement. HUD headquarters officials, however, said that the magnitude of expenditures for code enforcement by the city should have "raised a red flag" with respect to monitoring by the Fort Worth Regional Office. In addition, according to CDBG regulations, CDBG funds may be used for code enforcement only in deteriorating or deteriorated areas.

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<sup>2</sup>Analysis of Community Development Block Grant Drawdown Rates, (CED-80-137, Aug. 20, 1980).

Because it did not review code enforcement activities during 1987 through 1990, HUD monitoring staff did not detect that the city was improperly charging the CDBG program for code enforcement activities in ineligible areas. The October 1990 CPA audit report cited a material weakness in the manner in which the city charged the CDBG program for code enforcement activities. The report stated that 7 of 18 employees examined charged time to the CDBG program but worked in a city general fund area, and that the CDBG program was improperly charged for 11 of 40 randomly selected code enforcement charges. City officials agreed with the finding and instituted an accounting system change in September 1990 to correct the problem.

The March 1991 HUD IG audit also found improper code enforcement charges. The IG reported that the city may have overcharged the CDBG program by as much as \$700,000 in fiscal years 1989 and 1990. Specifically, the IG reported that the city did not maintain time distribution records for personnel involved in code enforcement activities as required by OMB Circular A-87 "Cost Principles for State and Local Governments." In response to the IG's recommendations, city officials agreed to maintain time records for a 1-year period, to determine an applicable percentage of code enforcement salaries that reasonably should be used in charging time to the CDBG program, and to submit recommendations to HUD regarding compensation to the CDBG program for any erroneously charged salary expenses previously incurred.

## HUD Monitoring of Dallas' Control Over Subrecipients Was Ineffective

Although HUD's Fort Worth Regional Office detected problems with Dallas' monitoring of subrecipient use of CDBG funds, it concluded that the city's system for monitoring subrecipients was adequate. An independent auditor and the HUD IG, however, found that the city's system for monitoring subrecipients was ineffective and not in compliance with OMB requirements. Additionally, the regional office reported for 4 consecutive years that the city had not audited all of its subrecipients, but did not take effective action to ensure that the city obtained the required audits.

## HUD Did Not Properly Report and Correct Noncompliance With Subrecipient Monitoring Requirements

The Fort Worth Regional Office reviewed Dallas' subrecipient monitoring system each year from 1987 through 1990. Although the regional office expressed concerns about various weaknesses in each year's monitoring reports addressed to the city, it did not report these concerns as "findings" which would have required the city to take corrective action. To the contrary, the regional office's 1987, 1988, and 1989 monitoring



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reports found the city's subrecipient monitoring system to be adequate, overall. Subsequent audits found the city's subrecipient monitoring system to be ineffective and not in compliance with OMB requirements.

HUD regulations state that grantees are responsible for ensuring that CDBG funds are used in accordance with all program requirements and that the use of public agencies, subrecipients, or contractors does not relieve the grantee of this responsibility. The grantee is also responsible for determining the adequacy of performance of subrecipients and for taking appropriate action when performance problems arise. According to the CPD Monitoring Handbook, using subrecipients is inherently risky, and when reviewing grant administration, HUD monitoring units should verify the adequacy of the grantee's monitoring of subrecipients and contractors. If deficiencies are found, the CPD Monitoring Handbook states that they should be reported to the grantee in a monitoring letter as either a concern or a finding. Findings are based on a statutory or regulatory requirement for which sanctions or other corrective actions are authorized, while concerns are not.

In May 1990, HUD's Fort Worth Regional Office reported that the city was monitoring the status of CDBG activities and urged the city to continue these efforts. In the same report, however, the regional office expressed concern that basic performance issues—such as meeting production schedules, client eligibility, and activity effectiveness—were not being given adequate coverage in the early contract stage. The regional office urged the city to review its subrecipient monitoring system to ensure that all aspects of subrecipient performance are reviewed. As in the 3 previous years, the regional office did not report this concern as a finding that would have required the city to take corrective action.

The October 1990 CPA audit report disclosed that the city's subrecipient monitoring system did not meet OMB requirements. The report cited (1) a lack of formal, written monitoring procedures, (2) inadequate supervision of monitors, (3) ineffective subrecipient reporting requirements, and (4) the absence of procedures to ensure that sufficient and timely corrective action is taken on all findings. City officials agreed with the findings and have taken action to develop policies and procedures to address the deficiencies. Similarly, the HUD IG reported in March 1991 that the city's two departments that administer the majority of CDBG programs had not effectively monitored subrecipient performance and that financial monitoring was not performed on a timely basis to ensure that CDBG funds were properly used in accordance with federal and city requirements.

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When asked why the regional office reported only concerns with the city's monitoring of subrecipients without concluding, as did independent auditors, that the city's monitoring system was not in compliance with OMB requirements, HUD monitoring officials told us that both they and the independent auditor found essentially the same thing—that the city's subrecipient monitoring process needed improvement. However, while the regional office expressed only concerns about monitoring weaknesses, the independent auditor found the city's monitoring system was not in compliance with OMB requirements.

The importance of an effective subrecipient monitoring system cannot be overemphasized because of the city's extensive use of subrecipients to carry out its CDBG program activities. For example, in fiscal year 1990, the city's total CDBG program expenditures as reported to HUD amounted to \$19,446,746, of which \$9,676,127, or about 50 percent, was expended through subrecipients. Without effective monitoring of subrecipients, neither the city nor HUD can adequately ensure that the CDBG funds are properly accounted for and that subrecipient performance is in accordance with contract terms, regulations, and federal law.

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### **HUD Did Not Adequately Enforce Compliance With Requirements for Subrecipient Audits**

While HUD's Fort Worth Regional Office monitoring reports for 1987 through 1990 found that the city had not audited all of its subrecipients as required by OMB regulations, the office did not impose sanctions or take other effective enforcement action to require the city to correct this persistent deficiency. The monitoring reports generally did not include specific information that would encourage corrective action, such as identifying which subrecipient audits were not current, the number of delinquencies, the extent of delinquencies, and the cause of delinquencies. Nevertheless, the regional office cleared its findings of delinquent audits for 1987, 1988, and 1989 based on repeated city promises to become current with required subrecipient audits.

In its May 1990 monitoring report, the regional office again found that the city was delinquent in obtaining required subrecipient audits and asked the city to develop a plan to achieve compliance. In April 1991, the regional office finally informed the city that it would not clear this latest finding until it had verified that the city had obtained all necessary audits and warned the city that failure to comply could result in HUD's imposing sanctions. According to the HUD regional financial specialist responsible for the city of Dallas, the city was expected to become current with its subrecipient audits by June 30, 1991. As of July 23, 1991, the city was not yet current with its subrecipient audits.

According to the CPD Monitoring Handbook, when reviewing grant administration, HUD monitoring units should verify the adequacy of the grantee's monitoring of subrecipients and contractors, including the grantee's compliance with requirements for subrecipient audits found in OMB Circulars A-128 and A-110. Circular A-128 requires that grant recipients and their subrecipients who receive more than \$25,000 annually must have an annual audit and that the audit reports should be issued no later than 1 year after the end of the audit period. The grantee is responsible for establishing a system to ensure that subrecipient audits meet the requirements of Circulars A-128 and A-110 and that there is an adequate system for following up and taking corrective action. With respect to nonprofit organizations, OMB Circulars A-110 and A-133 provide that audits of subrecipients must be conducted with reasonable frequency, but not less frequently than every 2 years. Circular A-133 states that audit reports on nonprofit organizations should be released within 13 months after the audit period. With regard to closing monitoring findings, the CPD Monitoring Handbook states that when the field office review indicates the grantee has provided satisfactory corrective action, a letter should be sent to the grantee stating that the finding is closed.

While the regional office closed findings based on city promises to become current with its audits, monitoring staff did not verify that the city had established a system to ensure that audits of subrecipients were obtained and that appropriate follow-up action was taken, as required by OMB Circulars A-128 and A-110. The HUD IG reported in March 1991 that audits were performed late or not at all and that the city did not have a system to ensure that subrecipient audits were planned and performed and findings resolved as required by OMB Circular A-128. The IG also reported that the city had not assigned responsibility to anyone for ensuring compliance with audit requirements found in Circular A-128.

HUD's Fort Worth Regional Office has recognized the importance of timely audits to correct deficiencies in the performance of subrecipients. Specifically, in its 1987 monitoring report, the regional office noted that when subrecipient audits are not done on a current basis, records become lost, errors are compounded, and disallowed costs are difficult or impossible to recover. In its March 1991 audit of Dallas' CDBG subrecipients, HUD's IG reported that without current audits of subrecipients there is no assurance that deficiencies identified by audits will result in timely and effective corrective action. In addition, government auditing standards published by the Comptroller General of the United States emphasize that audit reports should be issued promptly so as to make

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the information available for timely use by management, legislative officials, and other interested parties.

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## **Reported Planning and Administrative Costs Do Not Include Such Costs Incurred by Subrecipients and Subunits of Local Government**

The Fort Worth Regional Office does not include planning and administrative expenses incurred by most of the city's subrecipients when assessing compliance with the limitation on grant fund expenditures for planning and administration. HUD appropriation acts and CDBG regulations limit planning and administrative expenditures to 20 percent of the annual grant. In Dallas, all expenses incurred by subrecipients, except subrecipients under contract to perform specific planning activities, are reported as direct activity costs and thus are not counted against the planning and administrative cost ceiling.

Dallas has reported a dramatic increase in its planning and administrative expenses—from \$1,137,000 in 1987 to \$2,793,172 in 1990. This represented an increase from about 8 percent of its CDBG grant plus income in fiscal year 1987 to the maximum allowable 20 percent in fiscal year 1990. Dallas' increase in planning and administrative expenses contrasts sharply with nationwide expenditures which, according to HUD's 1990 report to the Congress, have remained relatively stable at 13 to 14 percent of CDBG expenditures since 1982. HUD regional officials told us that the recent increase in the city's planning and administrative costs is attributable primarily to an increase in the city's fair housing activities and increased city monitoring and compliance efforts. For example, in fiscal year 1990, the city spent \$361,414 for its Office of Community Development, which was established in October 1989 to provide central management over CDBG activities.

In its regulations, HUD has defined program administrative costs to include such items as reasonable costs of overall program management, coordination, monitoring, and evaluation; costs of providing fair housing services; costs of preparing documents required for submission to HUD; and other costs. Under current regulations, program administrative costs do not include staff and overhead costs directly related to carrying out eligible program activities. With few exceptions, HUD considers all costs incurred by a subrecipient or a subunit of the local government that is carrying out an eligible program activity to be direct activity costs and, therefore, not counted toward the ceiling on planning and administrative expenses.

The practice of reporting administrative expenses of subrecipients and subunits of the local government as activity costs can significantly

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understate the true magnitude of administrative expenses incurred in carrying out the CDBG program. This practice is particularly true in Dallas, where \$9.7 million, or about 50 percent, of city CDBG expenditures in 1990 were made through subrecipients. An analysis of one major subrecipient's contract with the city revealed that \$1,325,700 of the total contract value of \$5,041,325 was allocated to administrative expenses. If just this subrecipient's administrative expenses were identified and reported as such, the city's total planning and administrative costs would exceed the 20-percent limit. For the nation, HUD does not identify administrative expenses of subrecipients and subunits of local government. However, HUD believes that if subrecipient planning and administrative expenses were included in calculating grantee planning and administrative expenses, many grantees would exceed the 20-percent limitation. Nationally, in fiscal year 1988, subrecipients spent about 22 percent of CDBG entitlement funds. Further, HUD believes that the use of subrecipients and the amount of CDBG funds used by subrecipients has been increasing.

HUD officials are concerned about increasing administrative expenses in the CDBG program and agree that there are instances where subrecipients may be incurring excessive administrative costs. To better control subrecipient costs, HUD is developing productivity guidelines for CDBG activities, which they believe will result in grantees' spending more money on actual program delivery and less on program administration. Toward this end, in August 1991, HUD issued productivity guidelines in the housing rehabilitation area, which currently consumes over 30 percent of the annual CDBG appropriation. HUD staff also said that the feasibility of developing productivity guidelines for other major CDBG activities carried out by subrecipients would be explored.

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## Conclusions

The Fort Worth Regional Office's monitoring of the Dallas CDBG program was ineffective. Monitoring of the Dallas CDBG program during the 4-year period 1987-90 placed excessive emphasis on tracking total program expenditures in relation to a numerical timeliness standard without addressing the reasons for the city's persistent, unsatisfactory progress in using its grant funds. By itself, HUD's timeliness standard, based on an overall calculation of unspent funds, is not a reliable measure of a city's progress in addressing community development needs and may encourage less than optimum allocation of CDBG funds. By relying on the timeliness standard without identifying the reasons for not carrying out activities in a timely manner, it is unlikely that HUD or the city can formulate effective corrective action.

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In addition, ineffective risk analysis by the HUD Fort Worth Regional Office resulted in code enforcement not being the subject of monitoring. Thus, HUD monitors did not detect that the city improperly used CDBG funds for code enforcement activities in ineligible areas.

Despite the city's extensive use of subrecipients, the regional office's monitoring of subrecipient controls was ineffective. The regional office did not require the city to correct identified weaknesses in subrecipient monitoring, and as a result, subsequent independent audits found the city's subrecipient monitoring system to be ineffective and not in compliance with OMB requirements. In addition, the regional office repeatedly cleared findings of noncompliance with OMB requirements for subrecipient audits, without the problem being corrected.

While program administration costs for the city of Dallas CDBG program have increased dramatically, they are within the 20-percent limit set by law and defined by HUD regulation. However, HUD's definition of these costs generally excludes administrative costs incurred by subrecipients and subunits of the local government. Such accounting practices can significantly understate the true magnitude of administrative expenses incurred in carrying out the CDBG program and preclude accurate determination of the extent to which the CDBG program directly assists low- and moderate-income persons.

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## Recommendation to the Secretary of HUD

To improve the overall effectiveness of the CDBG program by ensuring that funds are spent on the highest-priority activities, we recommend that the Secretary of Housing and Urban Development require CPD monitors to identify the causes of grantee performance deficiencies affecting the timely use of CDBG funds in order to help ensure that appropriate corrective measures are devised and implemented.

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## Matters for Congressional Consideration

Since the use of subrecipients is increasing and HUD does not know the extent to which planning and administrative expenses of subrecipients and subunits of local government would affect grantees' compliance with the 20-percent limitation, we believe that although some additional resources will be necessary, the Congress should consider requiring that HUD identify the amount of planning and administrative costs that are now excluded from the 20-percent limitation. Further, if on the basis of this information, the Congress believes the CDBG program's planning and administrative expenses are excessive, appropriations legislation could

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be revised to require that all CDBG planning and administrative costs be applied to the 20-percent limitation, regardless of who incurs them.

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## Agency Comments and Our Evaluation

As requested, we did not obtain written agency comments on a draft of this report. However, we did discuss the findings, conclusions, and recommendations presented in this report with officials of HUD's Office of Block Grant Assistance and have incorporated their comments where appropriate. HUD agreed with our recommendation to require CPD monitors to identify the causes of grantee performance deficiencies affecting the timely use of CDBG funds. Conversely, HUD officials expressed doubt as to whether HUD had the ability or the resources to identify the amount of planning and administrative costs that are now excluded from the 20-percent limitation. The officials said they are already complying with the law and that planning and administrative expenses of subrecipients and subunits of local government that are carrying out eligible activities should not be counted toward the 20-percent limitation. We believe that the extent of planning and administrative costs of subrecipients and subunits of local government needs to be determined to know the true costs of administering the CDBG program. As a result, we believe the Congress should consider requiring that HUD study this issue.

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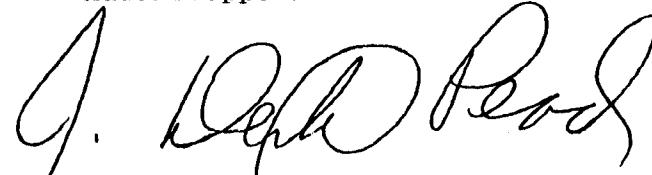
## Scope and Methodology

To determine the extent to which HUD's Fort Worth Regional Office monitored the city of Dallas' CDBG program, we reviewed regional office monitoring files and monitoring reports applicable to the city's CDBG program from October 1986 through April 1991. We interviewed HUD officials in the Fort Worth Regional Office and HUD headquarters and city of Dallas officials responsible for the program. We also reviewed an October 1990 independent audit report covering the city's CDBG program and a March 1991 HUD Inspector General report pertaining to subrecipients of the city's CDBG program. We reviewed CDBG regulations, HUD's CPD Monitoring Handbook, and procedures to determine the specific requirements for monitoring entitlement grantees. We conducted our work between July 1990 and May 1991 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretary of HUD; the Director, OMB; the Dallas City Manager; and interested congressional committees and subcommittees. We will also make copies available to others upon request.

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This report was prepared under the direction of John M. Ols, Jr., Director, Housing and Community Development Issues, who can be reached at (202) 275-5525. Major contributors to this report are included in appendix I.

A handwritten signature in black ink, appearing to read "J. Dexter Peach". The signature is written in a cursive style with a large initial "J" and a prominent "P" at the end.

J. Dexter Peach  
Assistant Comptroller General





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