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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant CARES Act Program

Office of Community Planning and Development

Washington, DC | 2022-LA-0003

September 28, 2022

Date: September 28, 2022

To: Marion McFadden
Principal Deputy Assistant Secretary for Community Planning and Development, D

//signed//

From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: Community Planning and Development, Washington, DC, Community Development Block Grant
CARES Act Grantees Faced Challenges Using Program Funds

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of HUD's Community Development Block Grant Coronavirus Aid, Relief, and Economic Security (CARES) Act program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call Tanya Schulze, Audit Director, at (213) 534-2471.

Highlights

COMMUNITY DEVELOPMENT BLOCK GRANT CARES ACT GRANTEE CHALLENGES | 2022-LA-0003

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant Coronavirus Aid, Relief, and Economic Security (CARES) Act program.

Our audit objective was to determine what challenges grantees faced in using program funds for activities that prepare for, prevent, or respond to the coronavirus and its impact. We used a survey questionnaire to gather feedback and insight directly from 1,047 program grantees.

As of July 30, 2022, grantees had drawn more than \$1.79 billion, or 36 percent, of the \$4.99 billion in program funds. We performed this audit to provide HUD, the public, and Congress with insight into the challenges that impacted the grantees in using program funds.

What We Found

Grantees responding to our survey questionnaire identified many challenges they were facing in using program funds for activities that prepare for, prevent, or respond to the coronavirus and its impact. Specifically, grantees reported facing challenges in (1) managing multiple funding sources, (2) spending program funds within required timeframes, and (3) meeting program objectives and requirements.

Grantees attributed these conditions to capacity issues, HUD's program rules and regulations, and other competing CARES Act application and expenditure deadlines. As a result, program funds are at risk of being recaptured if not spent by the designated deadlines to provide help to those impacted by the pandemic or for activities that prepare for, prevent, or respond to the coronavirus.

What We Recommend

We recommend that the Principal Deputy Assistant Secretary for Community Planning and Development consider looking into (1) extending the spending deadline and (2) streamlining program requirements.

Table of Contents

Background and Objective	5
Results of Audit	7
Finding: CDBG-CV Grantees Faced Challenges in Using Program Funds	7
Scope and Methodology	11
Appendixes	12
Appendix A - Auditee Comments and OIG’s Evaluation	12
Appendix B - Survey Response Rates and Questionnaire Results	13

Background and Objective

The Coronavirus Aid, Relief and Economic Security (CARES) Act¹, signed into law on March 27, 2020, made available \$5 billion in supplemental Community Development Block Grant funding (CDBG-CV) to prevent, prepare for, and respond to the coronavirus. These funds are available for allocation to the grantees until September 30, 2022. The U.S. Department of Housing and Urban Development (HUD) set aside \$10 million for technical assistance and had allocated program funds in three phases to 1,231 grantees of States and program entitlement communities as follows:

- Allocation 1 – \$2 billion allocated based on the same formula used for the regular fiscal year 2020 program formula allocation.
- Allocation 2 – \$1 billion allocated directly to States and insular areas.
- Allocation 3 – Part A: \$1.988 billion allocated on a rolling basis based on criteria determined by the HUD Secretary. Part B: \$2.42 million allocated to the District of Columbia (DC) to address a drafting error that unintentionally excluded DC from the second allocation.

As of July 30, 2022, grantees had drawn more than \$1.79 billion, or 36 percent, of the \$4.99 billion in allocated program funds. The table below shows the program funding, amount obligated, funded activities, and amount drawn to meet program objectives.

Program funding	Total allocated by HUD ²	Obligated ³ in IDIS ⁴	Funded activities ⁵	Drawn amount ⁶
\$4,990,000,000	\$4,990,000,000	\$4,976,319,558	\$3,503,140,215	\$1,798,974,655

As established by the CARES Act, program funds must be used to prevent, prepare for, and respond to the coronavirus. To ensure the expedited use of program funds to prevent, prepare for, and respond to coronavirus, HUD has shortened the period of performance established by the grant agreement from generally 8 years to 6 years and imposed an alternative requirement that each grantee spend at least 80 percent of all program funds no later than the end of the third year of the period of performance established by the grant agreement. Although most grantees are in the third year of their period of performance, 52 percent of the grantees, 634 of 1,231, had drawn less than 50 percent of their allocated program funds. The table below shows the percentage of allocated program funds drawn by the grantees, the associated number and percentage of grantees, and the amount not yet drawn.

¹ Public Law 116-136.

² HUD awarded \$4.99 billion in program funds to 1,231 grantees.

³ HUD signed grant agreements and made program funds available for disbursement.

⁴ The Integrated Disbursement and Information System (IDIS) provides HUD with current information regarding the program activities underway across the Nation, including funding data. HUD uses this information to report to Congress and to monitor grantees.

⁵ Total amount that the grantees have funded for grant-specific activities. Grantees must fund grant activities in IDIS before program funds may be drawn.

⁶ Program funds that the grantees have drawn to pay for grant-specific activities.

Percentage of allocated program funds drawn by grantees	Number of grantees	Percentage of grantees	Amount not drawn
Less than 50 percent	634	52%	\$2,702,205,261
50 percent or more but less than 80 percent	363	29%	454,808,094
80 percent or more	234	19%	34,011,990
Total	1,231	100%	3,191,025,345

Grantees must ensure that every program-funded activity meets the standards for one of the following three program national objectives:

- An activity that benefits low- and moderate-income (LMI) persons
- An activity designed to meet community development needs having a particular urgency⁷
- An activity that aids in the prevention or elimination of slums or blight

At least 70 percent of every grant must be spent for activities that benefit LMI persons by providing housing, a permanent job, a public service, or access to new or significantly improved infrastructure. The remaining 30 percent may be used to eliminate slum or blighted conditions or to address urgent community development needs for which the grantee certifies it has no other funding.

The CARES Act requires grantees to use program funds for activities to prevent, prepare for, and respond to the coronavirus. For example, grantees may use program funds to rehabilitate a building to add isolation rooms for recovering coronavirus patients. Grantees may also use program funds to address the indirect effects of the coronavirus such as the economic and housing market disruptions caused by social distancing measures and stay at home orders implemented to prevent the spread of the coronavirus.

In addition, grantees must have adequate policies and procedures in place to prevent duplication of benefits. Specifically, at a minimum these policies and procedures must include (1) a requirement that any person or entity receiving program funding assistance (including subrecipients and direct beneficiaries) must agree to repay assistance that is determined to be duplicative and (2) a method of assessing whether the use of these program funds will duplicate financial assistance that is already received or is likely to be received by acting reasonably to evaluate need and the resources available to meet that need.

Our objective was to determine what challenges grantees faced in using program funds for activities that prepare for, prevent, or respond to the coronavirus and its impact.

⁷ The activity must be designed to alleviate existing conditions, which pose a serious and immediate threat to the health or welfare of the community, are of recent origin, or recently became urgent, and the recipient must demonstrate the inability to finance the activity on its own and that other sources of funding are not available.

Results of Audit

FINDING: CDBG-CV GRANTEES FACED CHALLENGES IN USING PROGRAM FUNDS

Grantees expressed facing challenges in using program funds for activities that prepare for, prevent, or respond to the coronavirus and its impact. Specifically, grantees reported facing challenges in (1) managing multiple funding sources, (2) spending program funds within required timeframes, and (3) meeting program objectives and requirements. Grantees attributed these conditions to capacity issues in administering program funds, HUD's rules and regulations, and other competing CARES Act application and expenditure deadlines. As a result, program funds are at risk of being recaptured if not spent by the designated deadlines to provide help to those impacted by the pandemic or for activities that prepare for, prevent, or respond to the coronavirus. In response to the challenges, the grantees indicated that HUD should consider extending the spending deadline, allowing for flexibility in using program funds, and streamlining data collecting and reporting requirements as ways to help prevent, prepare for, and respond to the spread of the coronavirus.

Grantee Challenges in Managing Multiple Funding Source

Of the 1,047 grantees that completed the survey, 674 grantees,⁸ or 64 percent, reported receiving funding from sources other than HUD to address the coronavirus and its impact. The remaining 373 grantees, or 36 percent, did not receive funding from other sources to address the coronavirus and its impact.

Of the 674 grantees that received funding from multiple sources,

- 457 grantees, or 68 percent, found it challenging to manage the multiple funding sources, and
- 294 grantees, or 44 percent, found it more challenging to administer HUD program funds than funds from other sources.

In addition, 294 of the 674 grantees provided written comments associated with having multiple funding sources to address the coronavirus and its impact. Generally, grantees specified that

- meeting the various regulatory, deadline, and reporting requirements was most challenging,
- capacity was the second most challenging, and
- preventing duplication of benefits was the third most challenging.

One grantee stated that each funding source had a different set of regulatory requirements, which included special requirements related to addressing the coronavirus and its impact. According to that grantee, it was challenging to ensure that staff and organizations understood and complied with the different regulatory requirements. Another grantee stated that it had to hire a consultant to help navigate the different regulations, waivers, and specific program guidance of the different Federal funding sources. One grantee commented that inconsistent funding reporting requirements required

⁸ Refer to appendix B for a breakdown of all other sources from which 674 grantees received funding to address the coronavirus and its impact.

developing multiple systems or approaches to appropriately manage the multiple funding sources and outcomes.

Grantee Challenges in Spending Program Funds

Grantees encountered challenges in spending program funds for activities that prepared for, prevented, or responded to the coronavirus and its impact. To help grantees with program spending, HUD issued an alternative requirement that each grantee spend at least 80 percent of all program funds by the end of the third year of the period of performance established by the grant agreement. Grantees reported that the top three challenges⁹ that factored into its ability to spend program funds were (1) capacity (for example, staffing, technology, resources, etc.) to administer funds, (2) HUD's rules and regulations, and (3) competing CARES Act application and expenditure deadlines.

Among the 1,047 grantees that responded to the survey, 281 grantees, or 27 percent, provided additional written comments related to challenges in spending program funds. Many grantees expressed staffing shortages; HUD data collection requirements; competing expenditure deadlines; and concerns about the duplication of benefits, or providing the same services from other funding sources, as challenges in spending program funds. One grantee commented that multiple streams of funding from sources that included HUD and other government agencies strained staff resources already at capacity. According to the grantee, this issue also made checking for duplication of benefits difficult and significantly challenging. Another grantee stated that due to the high priority to spend the U.S. Department of the Treasury's Emergency Rental Assistance program funding, there were not enough staff members to help carry out additional HUD-funded programs. One grantee stated that CDBG rules and regulations were difficult to manage and follow as part of spending the program funds. Specifically, the grantee commented that the rules and regulations for preparing the 2021 Annual Action Plan and 2020 Consolidated Annual Performance and Evaluation Report, also known as CAPER, added to the challenge. There were also comments about the total amount of funding available from HUD and other sources, which indicated that funding may have been too much for the grantees to be able to meet expenditure requirements. In addition, many of these grantees felt that the complexity of HUD's requirements discouraged entities from participating in the program.

Grantee Challenges in Meeting Program Objectives and Requirements

Grantees encountered challenges in meeting program objectives and requirements to prevent, prepare for, and respond to the spread of the coronavirus. Grantees identified that the top three challenges¹⁰ were (1) lack of adequate capacity (for example, staffing, technology, resources, etc.) to administer funds, (2) HUD rules and regulations, and (3) competing CARES Act application and expenditure deadlines.

Of the 1,047 grantees that responded to the survey, 366 grantees, or 35 percent, provided written comments about challenges that factored into meeting program objectives and requirements. Overall, grantees that provided comments indicated that the following were among the many challenges they faced in meeting program objectives and requirements:

⁹ Grantees were allowed to select multiple answers related to its challenges in spending program funds.

¹⁰ Grantees were allowed to select multiple answers related to its challenges in meeting program objectives and requirements.

- HUD program requirements,
- influx of funds from multiple sources,
- lack of capacity of subrecipients and nonprofits, and
- preventing duplication of benefits.

For instance, one grantee expressed a need for more clarity in rules regarding the limits and flexibility for spending the funds. This grantee also expressed a need for clarity on how to document the use of program funds to prevent, prepare for, and respond to the spread of the coronavirus and how to prevent duplication of benefits. Another grantee expressed that there was too much funding from multiple sources, which made using the program funds challenging. Also, when factoring in HUD requirements, the use of other coronavirus-related funding was less cumbersome. One grantee stated that due to changing guidance, it had to do a lot of program planning, which delayed using the funds. Another grantee commented that the ever-expanding regulations and reporting requirements had less to do with maximizing program benefits and “everything to do with occupying and wasting staff capacity.” This condition resulted in project delays, cost overruns, and compromising program objectives for the grantee.

Regarding capacity issues, one grantee stated that its subrecipients did not have sufficient staff because staff members were quitting their jobs. Another grantee stated that staff capacity was the number one issue for the smaller jurisdictions for getting program funding out quickly because some of its departments have only one to two employees.

Another challenge grantees experienced was preventing duplication of benefits. For example, one grantee stated, “duplication of benefit regulations and the excessive amount of funds from multiple sources coming into the community with shorter deadlines to spend has created havoc for CDBG-CV.” This grantee also stated, “nonprofit subrecipients have only so much capacity to staff and expand programs.” Another grantee commented that the biggest challenge in administering program funds was avoiding the duplication of benefits. In addition, this grantee stated that avoiding duplication of benefits “required extensive, time-intensive coordination with partners at the county and state levels,” and “the level of effort required for this aspect alone was enormous, and likely could have been mitigated if HUD had provided more explicit direction.”

Conclusion

Grantees we surveyed expressed facing challenges in using program funds for activities that prepared for, prevented, or responded to the coronavirus and its impact. Particularly, grantees faced challenges in (1) managing multiple funding sources, (2) spending program funds within required timeframes, and (3) meeting program objectives and requirements. Grantees attributed these conditions to capacity issues in administering program funds, HUD’s rules and regulations, and competing CARES Act application and expenditure deadlines. As a result, program funds are at risk of being recaptured if not spent by the designated deadlines to provide help to those impacted by the pandemic or for activities that prepare for, prevent, or respond to the coronavirus.

Recommendations

We recommend that the Principal Deputy Assistant Secretary for Community Planning and Development

- 1A. Consider allowing grantees additional time to spend the program funding on eligible activities to meet the 80 percent spending deadline.
- 1B. Consider streamlining program requirements to help grantees promptly use program funds to assist those impacted by the pandemic or for activities that prepare for, prevent, or respond to the coronavirus.

Scope and Methodology

We conducted the audit remotely in the Los Angeles, CA, metropolitan area from September 17, 2021, through February 16, 2022. Our audit covered the period April 2, 2020, to September 30, 2021. To accomplish our audit, we developed a survey questionnaire and sent it to all grantees.

The audit universe consisted of 1,231 grantees that received a combined total of \$4.99 billion in allocated program funds. We used Microsoft Forms to create the questionnaire for grantees to use in completing the survey. HUD headquarters provided the link to grantees' contact information.¹¹ We sent an email with a hyperlink to enable the grantees to access our questionnaire online. Based on a 5-week period from October 29 to December 3, 2021,¹² we received responses from 1,047 of the 1,231 grantees contacted, or an 85 percent response rate. For reference, we included the survey response rates and questionnaire results in appendix B.

The grantees were asked questions related to challenges in (1) managing multiple funding sources, (2) spending program funds, and (3) meeting the program objectives and requirements. These questions were multiple choice and closed ended with optional comment boxes. We determined that a 100 percent selection method was appropriate since the online survey questionnaire is an effective and efficient method of data collection. Specifically, we relied on the information obtained through Microsoft Forms to collect responses from the grantees. As a result, we determined that the information from the program was sufficient to meet the objective of our audit.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective(s). We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objective.

¹¹ In instances such as when emails were undeliverable, we obtained alternate email addresses from the IDIS PR 32 Grantee Contact Information Report or searching grantee contact information from grantees' websites.

¹² We extended the survey deadline for additional 2 weeks, from November 19 to December 3, 2021, to help meet the minimum 80 percent response rate for the survey questionnaire.

Appendixes

APPENDIX A - AUDITEE COMMENTS AND OIG'S EVALUATION

On September 8, 2022, we issued the discussion draft report to the Principal Deputy Assistant Secretary for Community Planning and Development. On September 21, 2022, the Director of Block Grant Assistance, with the approval of the Acting Deputy Assistant Secretary for Community Planning and Development for Grant Programs, chose not to provide formal written comments for inclusion in the final report.

APPENDIX B - SURVEY RESPONSE RATES AND QUESTIONNAIRE RESULTS

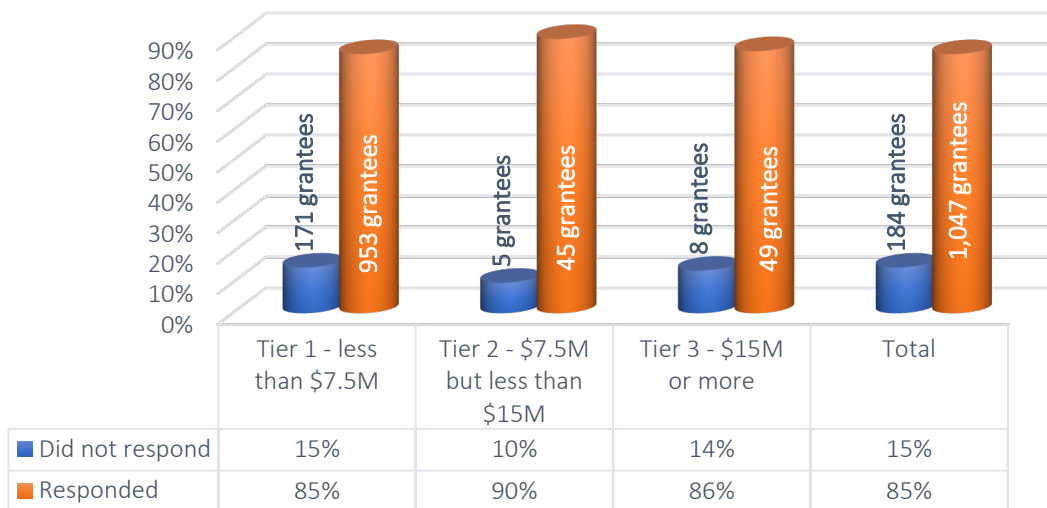
Survey Response Rates

We established a minimum 80 percent response threshold for the audit. Of the 1,231 grantees we surveyed, 1,047 grantees, or 85 percent, responded, and 184 grantees, or 15 percent, did not respond to our survey questionnaire. To ensure a fair representation among responses, we used HUD’s risk assessment approach to categorize grantees in three tier groups. These tier groups were based on the amount of program funds allocated to the 1,231 grantees as follows:

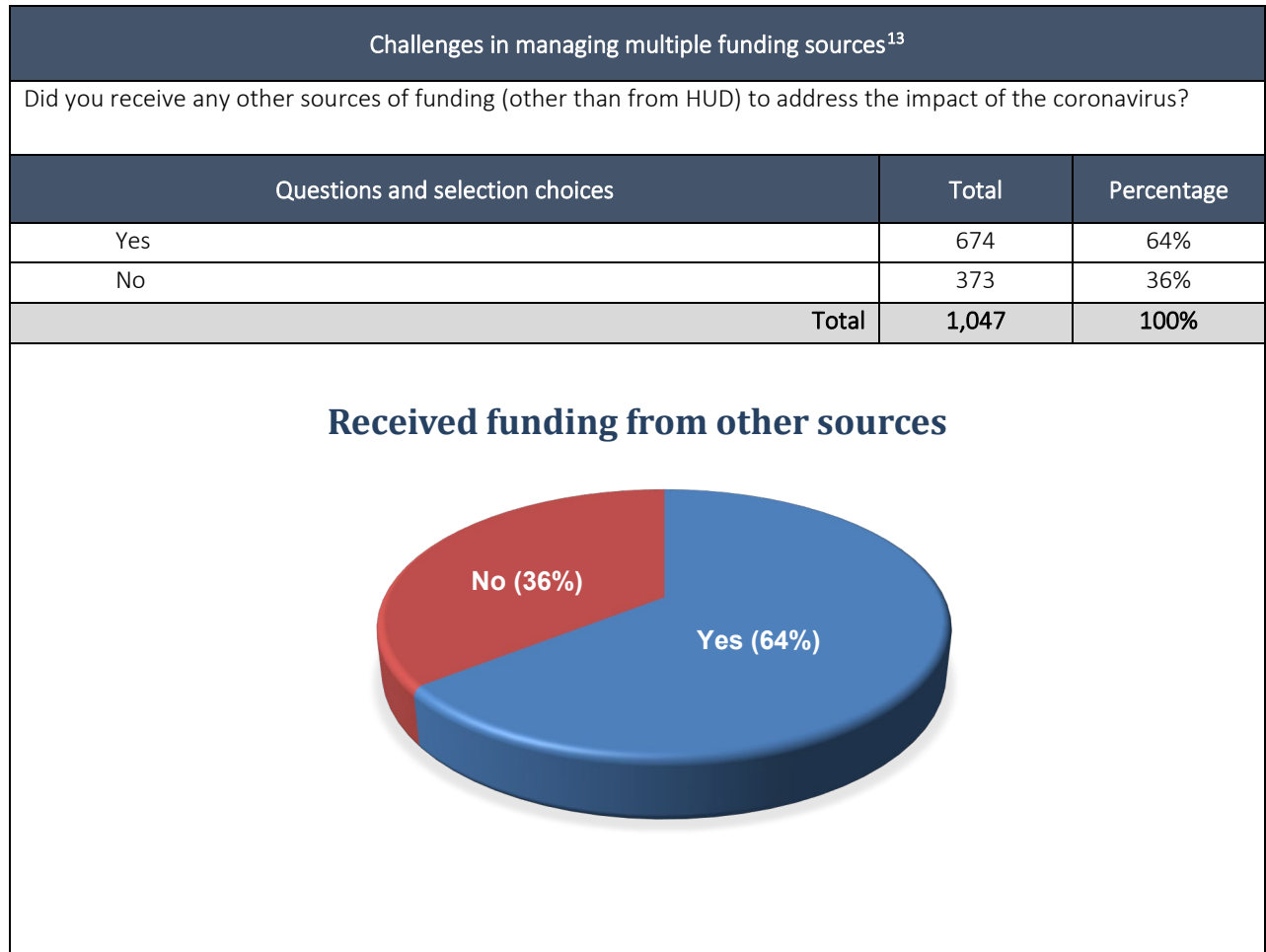
- tier 1 – grantees that received less than \$7.5 million,
- tier 2 – grantees that received \$7.5 million but less than \$15 million, and
- tier 3 – grantees that received \$15 million or more.

Within each tier group, we also established a minimum response rate of 80 percent. The chart below shows the response rates of grantees by designated tier group.

Response rates by funding tier



Questionnaire Results



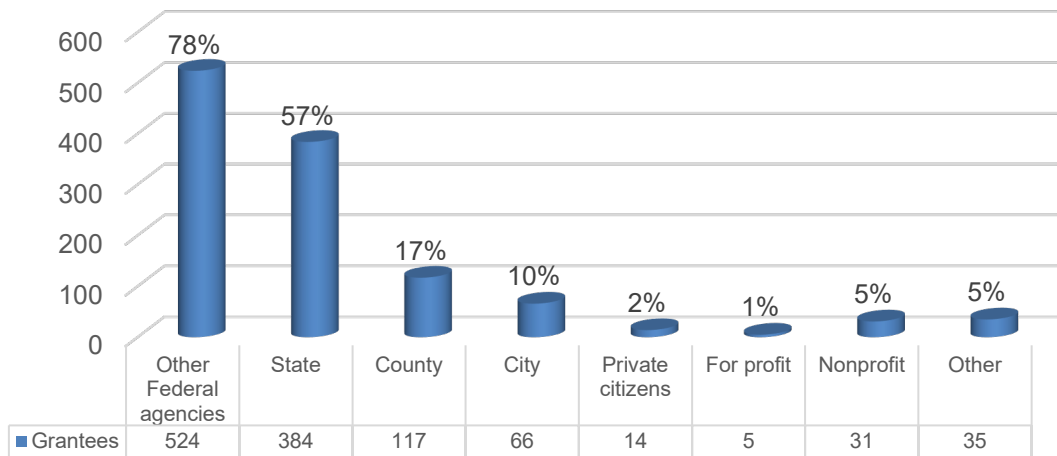
¹³ This section of the survey questionnaire applied only to the 674 grantees that responded “yes” to receiving funding from other sources (other than from HUD) to address the impact of the coronavirus.

Challenges in managing multiple funding sources

What other sources of funding were received to address the impact of the coronavirus? Check all that apply.¹⁴

Questions and selection choices	Total	Percentage
Other Federal agencies (other than HUD)	524	78%
State	384	57%
County	117	17%
City	66	10%
Private citizens	14	2%
For profit	5	1%
Nonprofit	31	5%
Other	35	5%

Other sources of funding to address the coronavirus and its impact



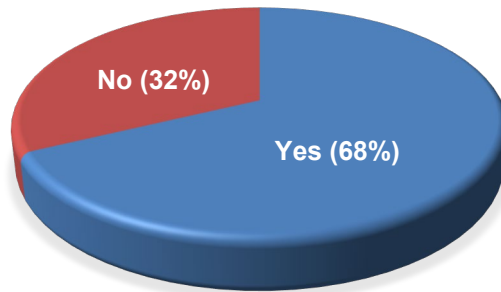
¹⁴ All 674 grantees were allowed to select multiple answers related to sources from which they received funding to address the impact of the coronavirus.

Challenges in managing multiple funding sources

Did you find it challenging to manage multiple funding streams in response to the coronavirus?

Questions and selection choices	Total	Percentage
Yes	457	68%
No	217	32%
Total	674	100%

Challenges in managing multiple funding streams

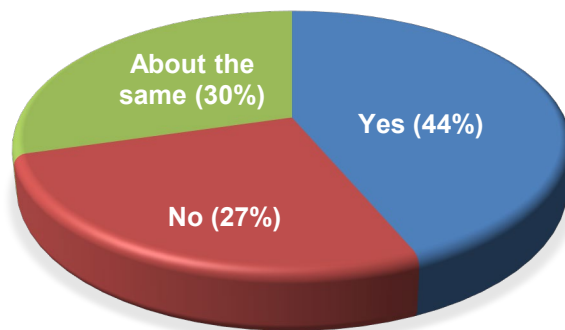


Challenges in managing multiple funding sources

Did you find administering CDBG-CV funds more challenging than other funding sources to address the impact of the coronavirus?

Yes	294	44%
No	181	27%
About the same	199	30%
Total	674	100%¹⁵

Challenges in program funds vs. other funds



¹⁵ There is a 1 percent difference in the total due to rounding.

Challenges in spending program funds

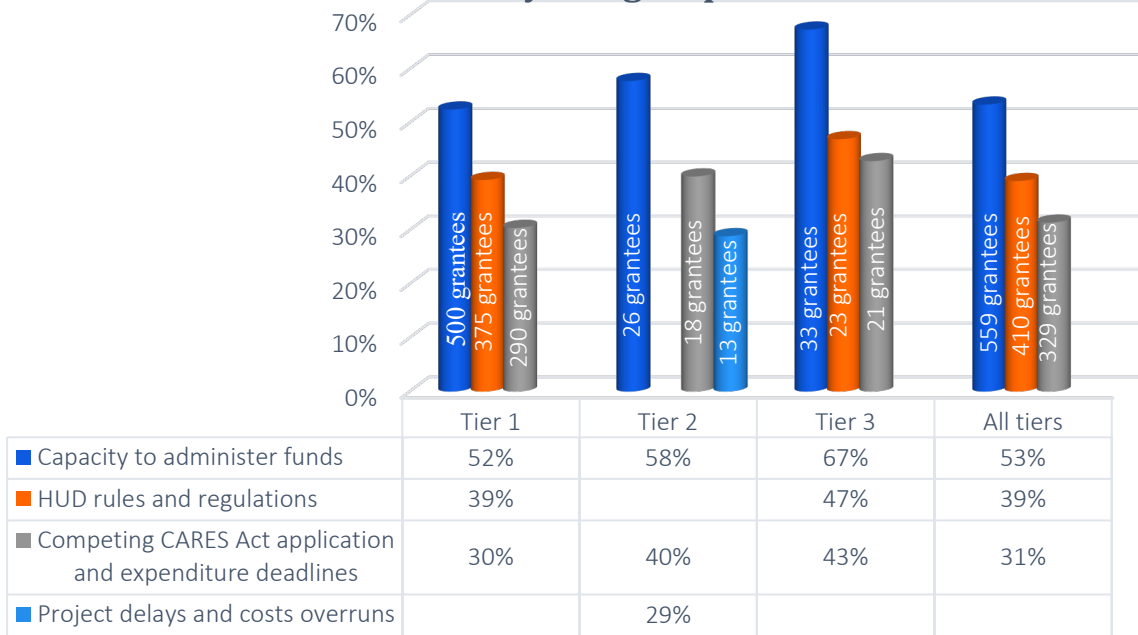
Which of the following challenges factor into the ability to spend allocated CDBG-CV funds? Check all that apply.¹⁶

Questions and selection choices	Total	Percentage
Capacity (for example, staffing, technology, resources, etc.) to administer funds	559	53%
HUD rules and regulations	410	39%
Competing CARES Act application and expenditure deadlines	329	31%
Meeting program objectives	284	27%
Project delays and cost overruns	269	26%
Reporting requirements	208	20%
Competency (for example, skills, knowledge, etc.) to administer funds	199	19%
Safety of the employees and the public	171	16%
Other	162	15%
None	132	13%
Political issues	96	9%
Public scrutiny or perception	63	6%
HUD monitoring	62	6%
HUD OIG scrutiny or perception	55	5%
Travel restrictions	29	3%
Media scrutiny or perception	29	3%

¹⁶ Grantees were allowed to select multiple answers related to its challenges in spending program funds.

Challenges in spending program funds

Top challenges in spending program funds by tier group



Challenges in meeting program objectives and requirements

Which of the following challenges factor into the ability to meet program objectives and requirements to prevent, prepare for, and respond to the spread of the coronavirus? Check all that apply.¹⁷

Questions and selection choices	Total	Percentage
Capacity (for example, staffing, technology, resources, etc.) to administer funds	670	64%
HUD rules and regulations	486	46%
Competing CARES Act application and expenditure deadlines	391	37%
Safety of the employees and the public	289	28%
Meeting program objectives	263	25%
Reporting requirements	247	24%
Project delays and cost overruns	234	22%
Competency (for example, skills, knowledge, etc.) to administer funds	219	21%
Other	181	17%
Political issues	136	13%
None	108	10%
Public scrutiny or perception	107	10%
HUD monitoring	102	10%
HUD OIG scrutiny or perception	83	8%
Travel restrictions	44	4%
Media scrutiny or perception	42	4%

¹⁷ Grantees were allowed to select multiple answers related to its challenges in meeting program objectives and requirements.

Challenges in meeting program objectives and requirements

Top challenges in meeting program objectives and requirements by tier group

