



Issue Date December 31, 2007

Audit Report Number 2008-NY-0001

TO: Nelson R. Bregon, General Deputy Assistant Secretary for Community Planning and Development, D

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: HUD's Monitoring Controls and Procedures Regarding the Community Development Block Grant Program Were Not Adequate

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) administration of the Community Development Block Grant (CDBG) program. The review was performed based on the Office of Inspector General's (OIG) annual audit plan and its strategic plan to help HUD improve its fiscal responsibilities. Our audit objectives were to determine whether HUD (1) had a system to measure the impact and outcome of its significant investment in grantees, which specifically determined whether (a) investments demonstrated increases in neighborhood health and (b) the primary CDBG objective of developing viable urban communities was attained, and (2) had implemented a system to measure the impact of its monitoring efforts for improving grantee performance and effectiveness.

What We Found

HUD performance measurements did not demonstrate how grantees were increasing neighborhood health and attaining the primary CDBG objective of developing viable urban communities. We attribute this condition to the fact that

HUD relied mostly on compliance and output measurements without relating these issues to overall grantee performance.

In addition, while HUD monitoring of CDBG entitlement communities identified numerous grantee deficiencies and offered meaningful recommendations for corrective actions, grantee performance had often not improved over time. We attribute this deficiency to the fact that HUD monitoring was geared to the resolution of compliance issues while placing little emphasis on performance outcomes.

What We Recommend

We recommend that HUD's Office of Community Planning and Development (CPD) implement a system to measure the impact of its monitoring efforts for improving grantee performance and effectiveness. Specifically, we recommend that HUD design a performance measurement system that allows HUD to report meaningful outcomes and not just outputs. HUD needs to design a ranking and rating system for individual grantees so that HUD and its stakeholders can identify and address both good and poor performance.

Further, we recommend that HUD establish controls to ensure that CPD monitoring efforts are streamlined and consistently applied to emphasize high-impact activities so that recommendations can focus on promoting improvements in program participants' performance. Also, HUD should assess the impact of its CPD monitoring on performance and increase incentives to improve grantee performance and compliance by using all of its available sanction authority.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the results of our review during the audit, provided a copy of the draft report to auditee officials, and requested their comments on October 18, 2007. We held an exit conference on October 31, 2007 and the auditee provided their written comments on November 14, 2007, at which time they generally disagreed with our findings. Appendix A of this report contains HUD's comments, along with our evaluation of the comments.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: Community Planning and Development Performance and Outcome Measurements Were Inadequate	6
Finding 2: HUD Monitoring Did Not Ensure Improvements in Grantee Performance	13
Scope and Methodology	20
Internal Controls	21
Appendixes	
A. Auditee Comments and OIG's Evaluation	23

BACKGROUND AND OBJECTIVES

Title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301 et.seq.) provides the U.S. Department of Housing and Urban Development (HUD) the authority to administer the Community Development Block Grant (CDBG) program.

The CDBG program provides annual grants on a formula basis to entitled communities to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. Entitlement communities develop their own program and funding priorities and consult with local residents before making final decisions.

No less than 70 percent of the funds expended over a period specified by the grantee, not to exceed three years, must be used for activities that benefit low-and moderate-income persons.

All CDBG activities must meet one of the following national objectives:

- (1) Benefit low-and moderate-income persons,
- (2) Aid in the prevention or elimination of slums and blight, or
- (3) Meet certain community development needs having a particular urgency.

Metropolitan cities and urban counties are entitled to receive annual grants. Metropolitan cities are principal cities of metropolitan areas or other cities within the area that have populations of at least 50,000. Urban counties are within metropolitan areas and have a population of 200,000 or more. The amount of each entitlement grant is determined by statutory formula, which uses several objective measures of community need including poverty, population, housing overcrowding, age of housing, and growth lag.

The fiscal year 2006 funding totals for the HUD field offices we reviewed are as follows:

New York field office	\$281,384,230 ¹
Newark field office	\$101,732,431
Buffalo field office	\$ 71,908,435
St. Louis field office	\$ 29,591,500
Knoxville field office	\$ 50,425,066

While the primary objective of the CDBG program is the development of viable urban communities, HUD's consolidated plan process combines the application process and includes the CDBG program with the HOME Investment Partnerships (HOME) and Emergency Shelter Grant (ESG) programs. These programs share three basic goals of providing decent housing, developing a

¹ Of the \$281,384,230 allotted to the HUD New York field office, \$185,593,145 was awarded to New York City, \$48,519,682 was awarded to New York State, and \$47,271,403 was allocated to remaining areas under the HUD New York field office jurisdiction.

suitable living environment, and expanding economic opportunity to low-and moderate-income persons.

The objectives of our audit were to determine whether HUD (1) had a system to measure the impact and outcome of its significant investment in grantees, which specifically determined whether (a) investments demonstrated increases in neighborhood health and (b) the primary CDBG objective of developing viable urban communities was attained, and (2) had implemented a system to measure the impact of its monitoring efforts for improving grantee performance and effectiveness.

RESULTS OF AUDIT

Finding 1: Community Planning and Development Performance and Outcome Measurements Were Inadequate

HUD needs to improve its method of measuring the impact and outcome of its investments of Office of Community Planning and Development (CPD) resources in grantee communities. HUD performance measurements did not demonstrate how grantees were increasing neighborhood health and attaining the primary CDBG objective of developing viable urban communities. Specifically, HUD had not adequately (1) defined the attributes of a viable urban community and how this goal was to be achieved, (2) reported to stakeholders the outcomes of CDBG activities as an indicator of program performance, (3) ensured that grantee compliance related to overall performance, (4) held individual grantees accountable for performance so that HUD and stakeholders could identify and address both good and poor performance, and (5) adjusted its Integrated Disbursement and Information System (IDIS) to provide assurances regarding the integrity of the data provided. We attribute these conditions to the fact that HUD relied mostly on compliance and output measurements without relating these issues to overall grantee performance. As a result, HUD could not ensure its stakeholders that the CDBG program was achieving its primary objectives or that individual grantees were improving over time and held accountable for poor performance.

HUD Needs to Improve Performance Measurements

The Government Performance and Results Act of 1993 requires HUD to provide Congress with annual performance plans and reports. A primary purpose of the Act is to hold federal programs accountable for establishing meaningful goals and measuring whether federal programs are achieving their intended program objectives.

After program year 2003, the U.S. Office of Management and Budget (OMB) conducted an assessment of all federal programs to ensure that they were working well for the American people.² The Program Assessment Rating Tool's (PART) rating of federal programs concluded that 3 percent of the 977 federal programs assessed were ineffective.³ The CDBG program was one of the programs termed ineffective. In summary, OMB found that the CDBG program lacked a clear purpose and lacked short-term and long-term outcome measures. The CDBG

² OMB, Government Performance and Results Act of 1993, Section 4.

³ OMB's ExpectMore.gov Web site provides that programs receiving an ineffective rating are not using tax dollars effectively and have been unable to achieve results due to a lack of clarity regarding the program's purpose or goals, poor management, or some other significant weakness.

program was also found to lack transparent information on results. Moreover, OMB found that the CDBG program did not have a limited number of specific long-term performance measures that focused on outcomes and meaningfully reflected the purpose of the program.

HUD annually reports performance measurements for the CDBG program in its annual Congressional Budget Justifications, reporting on both actual and planned performance items. Further, HUD has attempted to address the issues raised by OMB by establishing its “Outcome Performance Measurement System for Community Planning and Development Formula Grant Programs.”⁴

Our review conducted at five HUD CPD offices disclosed that the performance measurements used by HUD did not demonstrate how grantees were increasing neighborhood health and attaining the primary CDBG objective of developing viable urban communities. HUD could not demonstrate to Congress, OMB, and other stakeholders that the CDBG program was achieving its primary objectives and that individual grantees were improving over time.

The following subsections provide details on areas that HUD needs to address to ensure that the CDBG program achieves its objectives.

HUD Needs to Define “Viable Urban Community”

The development of viable urban communities is the primary objective of the CDBG program. Our review noted that HUD did not have a single definition of what constitutes a viable urban community and there was no such language highlighted in HUD regulations. As mentioned in the OMB PART assessment, the objective is too broad. To be viable, a community must be capable of working and surviving successfully. Clearly, viability is important to HUD because of the considerable investment of public funds made available to communities. Therefore, it would not be in HUD’s best interest to invest funds in a community that is not viable. To achieve a viable urban community, grantees need to focus their efforts and administer their funding in a manner that furthers the goals of attaining sustained success as a functioning community. Consequently, it is HUD that needs to define the parameters of what constitutes a viable urban community to measure grantees’ progress in attaining such goals.

The OMB PART assessment provides that the CDBG program statute attempts to describe the means to achieve this end as providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. Yet, HUD continued to report on CDBG program accomplishments primarily under two measurements: (1) the number of

⁴ Final Notice published in the *Federal Register*, Vol. 71, No. 44, on March 7, 2006.

households receiving housing assistance and (2) the number of jobs created/retained.

For HUD to establish meaningful and attainable program performance measurements and report outcome results to stakeholders, it first needs to clearly define what constitutes a viable urban community so that grantees can report on exactly how the activities funded with CDBG funds improved their communities and assisted in making them viable or livable.

HUD Needs to Ensure That Output Counting Relates to Grantee Performance

HUD had not established a procedure to measure the extent to which grantees met their own goals or the degree to which they met the objectives of the program (i.e., outcomes). All five of the HUD CPD Directors interviewed during our review concurred that HUD did not ensure that CDBG program funds would accomplish the desired outcomes of increasing neighborhood health or improving urban communities. HUD continued to report CDBG program accomplishments by primarily citing the number of outputs completed, such as housing and job creation, yet it did not equate these outputs with grantee performance.

HUD reported the following for fiscal year 2006:

- 139,136 households received homeownership assistance and/or homeowner housing rehabilitation from the CDBG program.
- 38,178 rental households received housing assistance with CDBG funds.
- 55,967 jobs were created or retained through the use of CDBG funds.
- 10,166 jobs were created or retained through the use of Section 108 program funds.

The above statistics alone do not represent an adequate indicator of program success or good performance as described below.

(1) Counting housing units and jobs is a poor indicator of grantee and overall HUD performance. For example, the largest grantee of one HUD field office reported more than 9,000 units of housing rehabilitation in one year in IDIS. However, it was later determined that 9,000 rehabilitation units consisted of 9,000 smoke detectors installed at a cost of approximately \$200 each. While installing smoke detectors is commendable and potentially life saving, this example illustrates the meaningless nature of reporting outputs without

equating them to grantee performance. Further, reporting the outputs of housing rehabilitation can be double counted when the unit is assisted with both CDBG and HOME program funds. However, statistics do not answer key performance questions, such as (1) was the rehabilitation or homeowner assistance cost effective, (2) did the rehabilitation improve the structure substantially, and (3) was the homeowner able to buy and maintain a house? Therefore, HUD did not report the value added or efficiency and effectiveness of the housing activity at both the grantee level and the national aggregate level.

- (2) HUD's output reporting of job creation statistics did not relate to overall grantee performance. Specifically, statistics did not answer performance questions such as (1) what kinds of jobs were created, (2) what kinds of jobs were retained, (3) were they part-time or full-time jobs, (4) were they minimum wage jobs or high paying jobs, (5) did the jobs have a positive impact on the grantee and the community, (6) how long were the jobs expected to last, (7) at what cost in resources were the jobs created, and (8) could the jobs have been created without CDBG program assistance?

HUD primarily measured outputs to report program accomplishments. While output measurement may be necessary and commendable, it does not equate to performance assessment and conclusions as to how grantees are meeting program objectives.

HUD Needs to Ensure That Grantee Compliance Relates to Performance

Similarly, HUD's performance reporting measured various compliance statistics and equated the compliance accomplishments with good performance, which may not have been the case. For example, one performance indicator reflected that 95.1 percent of CDBG entitlement funds were used to benefit low-to-moderate-income persons. While this percentage is important and noteworthy for compliance with the national objectives of the CDBG program, it is not representative of performance. This performance indicator does not account for the fact that many grantees may be in compliance with the low-to-moderate-income requirements; however, these same grantees may not be building viable urban communities. Compliance reporting does not ensure that grantees are achieving HUD's goals of providing decent housing and a suitable living environment or expanding economic opportunities. Finding 2 contains examples of grantees that complied with the CDBG objectives but had not improved their performance over many years. Therefore, HUD did not measure how grantees performed over time.

Grantees Were Not Held Accountable for Performance

As stated above, HUD compiled national statistics and reports on aggregate outputs, such as the number of households receiving assistance and the number of jobs created. However, these statistics did not adequately report how well a grantee was actually performing. Based on our review of five HUD field offices, we determined that HUD needs to implement a system for ranking and rating individual grantee performance. A scoring system much like that used by HUD to rate public housing authorities would assist performance measurement in a number of ways, such as

- Providing a measuring and reporting tool to inform OMB, Congress, and other stakeholders on how American cities are achieving the primary CDBG objectives, such as building viable urban communities.
- Identifying how many grantee communities are good performers and how many are poor performers.
- Informing grantees on their status in comparison to their peers and where improvements are needed.
- Assisting HUD in targeting grantees that require sanctions.

CPD Directors at all five field offices agreed that a ranking and rating system would be a useful tool for HUD and its stakeholders. The CPD Directors expressed frustration at not being able to hold grantees to a measurable standard. For example, a Director stated that one poor performing grantee had improved very little over the past few years. The Director expressed the opinion that the grantee had a hypothetical score of 5 on a scale from 1 to 10, although several years earlier, this same grantee would probably have had a score of 1. Such is the case with the City of Troy, New York, which demonstrated minimal improvement over the years despite HUD's monitoring efforts. Without a scoring system to hold the grantees accountable, these examples are not reportable.

The CPD Director in Knoxville stated that although most of Knoxville's grantees were good performers, the Director would like to see a scoring system that is objective, with the ability to reward good performers and penalize poor performers. Another Director agreed that there was no effective tool for measuring improvement of grantees from year to year or over the grantees' five-year plan period. Accordingly, HUD needs to allow real sanctions on poor performing grantees such as debarment, limited denials of participation, and repayment of ineligible funds from nonfederal sources; or certain high risk grantees will never improve. This recommended scoring system could be used as a means to apply effective sanctions.

IDIS Data Remain Unreliable

For performance reporting, HUD relied primarily on data reported by the grantee in IDIS, while having limited assurances regarding the integrity of the data provided. For years, IDIS has been cited as containing inaccurate, incomplete, and corrupted data. If HUD does not improve the integrity of IDIS data, even a new performance measurement system will not appropriately measure outcomes.

IDIS does not produce the complete, accurate, and timely information that HUD should obtain from a computerized database to effectively manage and monitor its CDBG program. IDIS has major design flaws that make it difficult for grantees to enter information accurately and for field office officials and grantees to use the information to monitor performance.⁵ The system does not allow for simplified data collection by HUD. There is no required uniformity in the data entered into IDIS by grantees. For example, the City of Newark was able to deobligate funds in IDIS without providing sufficient explanation. The differences in data, structure, format, and timing make it all the more difficult for HUD to appropriately measure outcomes and report on a national level. HUD and grantees need to generate standardized information to measure and report on program outcomes.

Although HUD attempted to improve the accuracy and usefulness of IDIS, CPD field offices continued to have major concerns with its reliability. All five of the field offices we reviewed disclosed concerns pertaining to the integrity and accuracy of data reported in IDIS by grantees. In December 2001, HUD began a data cleanup initiative. However, by 2004, it was noted that 196 grantees nationwide had errors and omissions in their IDIS data. Nearly 64,000 CDBG activities in IDIS still contained inaccurate or incomplete accomplishment data in 2004.

Our audit work in the HUD Knoxville field office further illustrates how IDIS data integrity concerns continued to negatively impact HUD reporting. For example, in 2004, the Nashville/Davidson grantee was cited for having an increasing IDIS data error rate, despite HUD's data cleanup attempts. At that time, HUD stressed to Nashville/Davidson the importance of IDIS for documenting the effectiveness of programs to Congress. In 2006, HUD again informed the grantee that IDIS showed a lack of reporting on its accomplishments and the insertion of completion data. Accordingly, it is difficult to determine how the Nashville/Davidson grantee performed in terms of meeting annual goals and objectives via its IDIS data.

⁵ General Accounting Office Reports, GAO-99-98, dated April 27, 1999, "Community Development: Weak Management Controls Compromise Integrity of Four HUD Grant Programs," and GAO-06-732, dated July 2006, "CDBG: Program Offers Recipients Flexibility but Oversight Can Be Improved."

Conclusion

HUD performance measurements did not demonstrate how grantees were increasing neighborhood health and attaining the primary CDBG objective of developing viable urban communities. HUD could not adequately demonstrate to various stakeholders that the program was achieving its primary objectives or that individual grantees were improving over time and were held accountable for poor performance. Accordingly, unless HUD addresses the issues discussed above, the CDBG program cannot be appropriately measured for effectiveness.

Recommendations

We recommend that the Acting Assistant Secretary for HUD's Office of Community Planning and Development

- 1A. Adequately define "viable urban community" and how, specifically, this goal is to be achieved and measured for poor performance in its CDBG program.
- 1B. Design a performance measurement system that allows HUD to report, not just outputs, but also meaningful outcomes, such as the extent to which grantees meet their own goals and the objectives of the CDBG program.
- 1C. Design a ranking and rating scoring system for individual CDBG grantees so that HUD and stakeholders can identify and address both good and poor program performance.
- 1D. Continue to assess and improve IDIS so that data used for reporting can be relied upon as an accurate and complete representation of CDBG grantee program performance.
- 1E. Consider reassessing the future viability of the CDBG program for its ability to achieve stated objectives.

Finding 2: HUD Monitoring Did Not Ensure Improvements in Grantee Performance

While HUD monitoring of CDBG entitlement communities, at times, identified many grantee deficiencies and offered meaningful recommendations for corrective actions, grantee performance often did not improve over time. We attribute this deficiency to the fact that HUD monitoring was geared to the resolution of compliance issues while placing little emphasis on performance outcomes. Consequently, HUD could not provide assurance that its monitoring efforts resulted in improved grantee performance.

Background

HUD Handbook 6509 provides that monitoring is an integral management control technique and a Government Accountability Office (GAO) standard. It is an ongoing process that assesses the quality of a program participant's performance over time. Monitoring provides information about program participants that is critical for making informed judgments about program effectiveness and management efficiency. It also helps in identifying instances of fraud, waste, and abuse. The specific purposes of monitoring are to determine whether the program participant's performance meets CDBG program requirements and to improve participant performance by providing guidance and making recommendations.

Our analysis of HUD's monitoring of our sample of 10 entitlement grantees determined that a wide variety of significant deficiencies existed. However, the many and often repetitive deficiencies identified for the grantees we reviewed indicate that HUD monitoring efforts did not result in desired improvements in grantee performance or effectiveness in administering HUD-funded CDBG programs and activities. Moreover, many of the deficiencies identified provide evidence that the impact and outcome of significant investment of HUD funds in these communities had not achieved the desired increases in neighborhood health and the development of viable urban communities. Thus, these recurring deficiencies and weaknesses precluded efficient and effective administration of HUD-funded CPD programs and activities. Some of the deficiencies noted are discussed below.

City of Troy, New York

The City of Troy, New York's consolidated plan for fiscal years 2000 through 2004 identified many priorities, goals, objectives, and strategies, including a critical need for a variety of housing options to be made available to fulfill the needs of all income levels. However, central to addressing the housing situation in the City of Troy was the need to increase affordability of housing and continue rehabilitation of the existing housing stock. Moreover, both the 2000 and 2005

consolidated plans identified priority needs in the areas of housing and economic opportunities. Despite the needs and goals identified, the City of Troy experienced ongoing issues of noncompliance with various requirements of the CPD programs that it administered. The noncompliance and deficiencies detracted from the City of Troy's ability to address its stated community needs.

HUD monitoring conducted in 2001, 2003, and 2005 cited deficiencies and findings relating to inadequate monitoring of subrecipients, including one instance in which the lack of monitoring resulted in the payment of \$44,928 for services which did not provide the desired outcome.

Similarly, HUD monitoring conducted in 2001 noted that the City of Troy's monitoring of a Section 108 loan project was insufficient. In 2005, HUD again identified concerns with the same Section 108 loan, now defaulted. Consequently, since 2001 the City of Troy has expended more than \$1.2 million in CDBG funds to repay defaulted Section 108 loans, and HUD anticipated that an additional \$270,000 in CDBG funds would be expended for the same purpose in fiscal year 2007. The significant use of CDBG funds for this purpose precluded the City of Troy from bettering the community through other potential entitlement activities.

The City of Troy also continued to experience problems in administering its housing rehabilitation revolving loan fund activities in a timely manner.

As indicated, HUD had cited the City of Troy for many and often repetitive deficiencies over the past several years. Clearly, despite ongoing monitoring of this grantee, HUD's efforts did not result in desired improvements in grantee performance and effectiveness.

City of Buffalo, New York

The City of Buffalo, New York's consolidated plan for fiscal year 2000 identified the preservation and rehabilitation of housing as a top priority and cited that additional priority needs were economic development and job creation. In May 2003, the City of Buffalo filed a new five-year consolidated plan for activities through April 30, 2008. The new plan continued to cite priority needs as housing, public improvements, economic development, and job creation. The City of Buffalo's goal was to transform the economic well-being, environmental health, and population of the city, which had decreased from 580,000 in 1950 to 292,600 in 2000.

HUD routinely monitored the CPD-funded activities and programs of the City of Buffalo and identified many deficiencies and issues that had diminished the City of Buffalo's ability to attain stated goals and priorities. Specifically, HUD monitoring of the City of Buffalo's Section 108 program in 2002 disclosed that

the City failed to ensure that funds were used for eligible activities. In addition, Section 108 funds were improperly disbursed to a developer before the execution of the HUD contract, and Section 108 funds on hand were used to fund project costs before contract approval, which is an ineligible use of funds. Additionally, in a July 2003 review of the City of Buffalo's consolidated plan, HUD determined that \$5.1 million of the City's \$19.9 million CDBG grant was used to satisfy debt repayment of Section 108 loan guarantee assistance that was previously used by the City. This represents more than 25 percent of the fiscal year 2003 CDBG grant.

In October 2003, a HUD monitoring cited 19 findings, some of which were (1) the lack of basic management systems and budget controls to administer the HOME program in accordance with the regulations; (2) more than \$1 million in HOME administrative costs that could not be supported for eligibility and reasonableness; (3) \$1.3 million in HOME program funds used for an ineligible project in violation of federal regulations; and (4) nearly half of the HOME program loans (220 HOME loans) being delinquent, with delinquencies exceeding 90 days totaling \$497,643.

Apart from the above, an August 2006, HUD monitoring cited the City of Buffalo for not conducting formal monitoring of any HOME subrecipients and for not spending HOME funds in a timely manner while also failing to report accurate and timely data in IDIS. Further, the City's lack of progress to deobligate and reprogram HOME funds as needed resulted with the City's being approximately \$2.9 million short of actual HOME commitments by the deadline of December 31, 2006.

Despite the frequent and comprehensive monitoring of the City of Buffalo's CPD-funded programs and activities, it is apparent that HUD did not ensure or measure whether the City of Buffalo improved from year to year, given the above examples of program noncompliance and continued problems. Our analysis of HUD monitoring reviews and documents found no evidence of how progress was measured. Even as HUD continued to monitor the City of Buffalo, there did not appear to be a lasting effect or benefit to the process.

City of Newark, New Jersey

The City of Newark, New Jersey's five-year consolidated plan for fiscal years 2000 through 2005 focused on the priorities of affordable and market rate housing, neighborhood services, and supportive public services. The City of Newark's five-year consolidated plan for fiscal years 2005 through 2010 identified its priority areas as neighborhood services, public service across a continuum of care, and economic and housing development services. However, HUD monitoring reviews of the City disclosed ongoing problems and deficiencies that limited the City of Newark's ability to effectively administer its CDBG-

funded programs and activities. Examples of deficiencies noted by HUD include the following:

- A November 2001 technical assistance report noted that the City of Newark had long-standing CDBG timeliness issues.
- Monitoring conducted by HUD in July 2002 disclosed that an August 1999 finding remained open because the City of Newark failed the established benchmark timeliness ratio when last measured on March 4, 2002. Also, HUD identified slow-moving or stalled activities and instructed the City to reallocate the associated CDBG funds to more viable activities.
- In October 2002, HUD determined that the City of Newark's action plan did not describe how the Emergency Shelter Grant matching requirement would be satisfied or how the proposed activities corresponded to the priority needs and local objectives identified in the consolidated plan.
- A February 2005 technical assistance report disclosed that the City of Newark was in jeopardy of having funds recaptured for not meeting the 2003 HOME commitment requirement, community housing development organization reservation requirement, and 2000 disbursement requirement of October 31, 2005.
- HUD's 2006 risk analysis of the City of Newark disclosed that as of September 30, 2005, commitment of fiscal year 2003 HOME funds showed a shortfall of more than \$4 million.
- The 2006 technical assistance report disclosed that the City of Newark fell short of the 2003 HOME program commitment and the 2000 HOME expenditure requirements. Therefore, the HUD field office in February 2006 notified the City that \$920,550 (\$833,309 for fiscal year 2003 HOME commitment shortfall and \$87,241 for fiscal year 2000 HOME disbursement shortfall) would be recaptured. Consequently, the City of Newark's 2007 HOME allocation was to be reduced by \$920,550.

Although the City of Newark had experienced ongoing issues of not complying with various requirements of the CDBG program, HUD's monitoring efforts did not appear to have been effective in ensuring improvements in grantee performance.

City of Saint Louis, Missouri

The City of Saint Louis, Missouri's November 1999 consolidated plan identified neighborhood and economic development as the keys to realizing program goals.

Decent housing and economic opportunity were also cited as goals. However, housing issues in the City did not improve. In its November 2004 consolidated plan, the City of Saint Louis identified significant housing goals to rebuild the market for housing in its neighborhoods while providing quality affordable housing for its existing lower income residents.

In 1999, the HUD Office of Inspector General (OIG) issued a critical audit report on the City of Saint Louis.⁶ Among several findings, the audit determined that the City of Saint Louis could not demonstrate that economic development activities met a national objective and that low- and moderate-income jobs were not adequately documented. Further, in 2006, HUD OIG issued another highly critical audit of the City of Saint Louis, noting the same deficiencies noted in the 1999 audit.⁷ Specifically, this audit disclosed that economic development projects did not meet HUD requirements for retaining and creating jobs and that projects were funded but the City could not demonstrate that jobs for low-to-moderate-income persons were created or retained.

HUD and the City of Saint Louis had been fully aware of the conditions that existed with the subrecipient since 1999, yet these conditions still persisted in 2006. Our review determined that despite the HUD OIG audit findings, the HUD CPD field office did not actively monitor the subrecipient during the years between 1999 through 2006.

Another issue impacting the City of Saint Louis's CDBG program operations was its extensive use of CDBG funding for the Section 108 program. The HUD Saint Louis CPD field office provided a history from IDIS showing that more than \$31.6 million in CDBG funding was used by the City for Section 108 loan repayments from 2002 through 2006.

The City of Saint Louis expressed concern over its use of CDBG funding for Section 108 repayments in its 2004 action plan, specifically stating that the 2004 Section 108 loan repayment amount would be greater than originally anticipated, thereby resulting in even fewer dollars being available for CDBG program activities. The rate of Section 108 loan repayments was approximately 25 percent of the City of Saint Louis' annual CDBG entitlement. For example, during program year 2006, the City of Saint Louis disbursed more than \$5.4 million in CDBG funds for Section 108 loan repayments, representing 26 percent of the \$20.7 million grant. Given the recent trend of decreasing CDBG entitlement funding levels on a national scale, significant use of CDBG funds for Section 108 loan repayments could have a negative effect on program performance for cities like Saint Louis.

⁶ HUD OIG Audit Report No. 99-KC-244-1002, issued September 28, 1999.

⁷ HUD OIG Audit Report No. 2007-KC-1001, issued October 11, 2006.

Accordingly, it is clear that the City of Saint Louis did not adequately improve in key areas of performance, such as job creation and retention, and HUD monitoring of the City did not appear to be effective in ensuring improvements in grantee performance.

Similar Deficiencies Noted in Other Cities

Deficiencies similar to those cited above were identified in Patterson, New Jersey; Newburgh and Poughkeepsie, New York; Memphis and Nashville, Tennessee; and Florissant, Missouri.

Apart from the above, HUD CPD field office Directors described other obstacles that limited the effectiveness of monitoring to ensure improved grantee performance, including the following:

- HUD was not required to assess grantee five-year consolidated plan progress once the plan had been completed by the grantee and accepted as adequate by HUD. The field office agreed that in addition to annual program assessments, HUD should assess grantees based on their five-year plans.
- Some regions were experiencing a lack of resources or a lack of needed specialists, such as financial technicians. This likely contributed to the differing levels and scope of monitoring we observed at the various field offices.
- Sanction authorities were insufficient, difficult to exercise, and overly time consuming.

Conclusion

Despite HUD's ongoing efforts in monitoring, issuing reports, and communicating corrective actions through recommendations, many grantees continued to experience difficulty in administering their HUD-funded activities; thus, serious deficiencies continued to recur. Analysis of HUD's monitoring shows that many of the entitlement communities had not adequately demonstrated sustained improvements in performance. Nonetheless, HUD's monitoring efforts primarily focused on compliance issues while placing little emphasis on performance. Accordingly, the desired outcome of improving grantee performance over time, as a byproduct of monitoring, was not supported. HUD could improve monitoring effectiveness by more thoroughly communicating to grantees the impact of noncompliance on performance. Further, HUD should assess grantees based on their five-year consolidated plan performance. Lastly,

HUD needs to hold poor performing grantees accountable by ensuring that it uses and enforces all available sanction authority when warranted.

Recommendations

We recommend that the Acting Assistant Secretary for HUD's Office of Community Planning and Development

- 2A. Establish controls to ensure that CPD monitoring efforts are consistently applied, streamlined to emphasize high-impact activities, and focused on promoting improvements in program participant performance.
- 2B. Establish controls that will assess the impact of CPD monitoring on grantee performance so as to ensure that grantee compliance with recommendations, relates to overall performance.
- 2C. Increase incentives to improve grantee performance and compliance by using all available sanction authority.

SCOPE AND METHODOLOGY

Our review began as a survey of the HUD CPD office in the Buffalo, New York, field office. The review was then expanded to include the New York City; Newark, New Jersey; St. Louis, Missouri; and Knoxville, Tennessee, HUD field offices.

To accomplish our objectives, we obtained background information on the CDBG program and related field office monitoring efforts. We identified areas susceptible to material problems including those issues relating to the failure of HUD to demonstrate improvements in grantees' performance.

To determine the impact of HUD monitoring efforts on measuring and improving grantee performance, we reviewed HUD's monitoring of 10 grantees within the jurisdiction of the above five HUD field offices. We selected two entitlement grantees at each of the field offices and conducted comprehensive file reviews, including reviews of HUD monitoring conducted during the past several years. The grantees selected for our review were rated most at risk based on risk assessments conducted by the field offices.

To identify whether CPD monitoring and performance measurement had helped grantees improve over time, we reviewed the compliance and performance records for each grantee in our sample from program year 2007 back to 2002. To accomplish this objective, the following HUD field office documents and files were obtained and reviewed, including related documents from the Grant Management System and all correspondence for each grantee: (1) annual community assessment reports and annual plan reviews, (2) approved annual action plans, (3) consolidated annual performance and evaluation reports, (4) annual comparative review reports, (5) technical assistance reports, (6) monitoring and remote monitoring reports, (7) program year review letters, (8) work plan reports, and (9) HUD consultation reports. We also reviewed prior OIG audit reports related to some field offices. In addition, we discussed the results of our file reviews with appropriate HUD field office personnel and CPD Directors. Lastly, we analyzed the results of our audit work in relation to our audit objectives.

The review covered the period from January 1, 2002, through September 30, 2006, and was extended as necessary. We performed audit work from October 2006 through July 2007 at the HUD field offices noted above. The review was conducted in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- HUD had not implemented a system to adequately demonstrate to its stakeholders that the CDBG program was achieving its primary objectives or that individual grantees were improving over time and were held accountable for poor performance (finding 1).
- HUD had not implemented a system to measure the success of grantee activities over the five-year consolidated plan period; thus, HUD could not provide assurance that its monitoring efforts resulted in improved grantee performance (finding 2).
- HUD had not established a method to measure grantee improvements from both a compliance and performance perspective; thus, HUD was limited in its ability to reasonably measure the impact of its monitoring efforts (findings 1 and 2).
- HUD had not established controls and procedures to ensure the validity and reliability of data provided by grantees in IDIS; thus, HUD had limited assurances on the integrity of the data provided and could not assure that the CDBG program was achieving its goals (findings 1 and 2).


APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

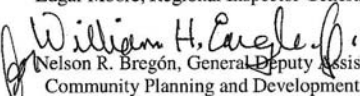
Auditee Comments

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

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

NOV 14 2007

MEMORANDUM FOR: Edgar Moore, Regional Inspector General for Audit, 2AGA

FROM: 
Nelson R. Bregón, General Deputy Assistant Secretary for
Community Planning and Development, D

SUBJECT: Comments on the Draft Audit, HUD's Monitoring Controls
and Procedures Regarding the Community Development
Block Grant Program Were not Adequate

On October 31, 2007, CPD staff met with you and the Regional Inspector General for Audit of your New York office to discuss our concerns regarding the Office of Inspector General's (OIG) draft audit on HUD's adequacy regarding monitoring controls and procedures for the Community Development Block Grant Program (CDBG).

The draft audit is based on incorrect premises, indicates a lack of understanding of the CDBG program, fails to coherently and logically assemble factual evidence to support its conclusions, uses a number of undefined terms and, lastly, does not recognize relevant, corrective actions already taken by CPD and HUD. Detailed comments in support of these concerns follow.

Viable Urban Community

It appears that the primary basis for this audit is that HUD should be measuring whether CDBG "investments demonstrated increases in neighborhood health." This apparently is due to our reported failure to define "viable urban communities" and the fact that our monitoring efforts are focused on compliance rather than performance (and, further that there is no link between the compliance and performance). It offers opinion and calls for actions that are not supportable or called for within the structure of the authorizing statute, Title I of the Housing and Community Development Act of 1974, as amended (the Act).

The basis for this report appears to be an OMB PART score of the CDBG program rendered in 2003 which identified it as ineffective. The fact that CPD expressed disagreement with OMB on this point is not mentioned. Such an identification disregards the historical genesis of the program as a "flexible, formula-driven block grant that supports local initiatives and permits substantial local discretion" and one that has "had measurable impacts on cities and neighborhoods," successfully "stabilizing and revitalizing urban neighborhoods"; That the Housing and Community

Comment 1

Comment 2

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 2

2

Development Act of 1974 predates the more recent OMB PART process should not represent a call to question its "future viability."

This statutorily authorized structure makes cross-grantee comparisons difficult as the end uses of the funds vary greatly from grantee to grantee. For example, how should HUD quantify the value of public water and sewer infrastructure to a neighborhood that previously lacked such services in comparison to an economic development activity that creates 50 jobs available to low- and moderate-income persons? How should these activities be compared to a public service activity that provides meal service to senior citizens unable to leave their homes or to a housing rehabilitation program designed to address deteriorating housing conditions in a given neighborhood? Any attempt to quantify such activities in comparison to one another involves imposing a set of value judgments which are not called for under the Act.

Further, the OIG echoes OMB's perception that the statutory definition of a viable urban community is "too broad." It then appears to fashion a definition of its own as a basis for continuing with the report, stating that "viability" means that "a community must be capable of working and surviving successfully." The OIG would apparently have all 1,187 communities eligible to receive CDBG funds in 2007, follow a single definition. It is our position that taking such a stance would ignore Congressional intent in the fundamental design of this program – which was to permit substantial local discretion. The Act predicates the CDBG program upon local government officials defining community development needs and using the inherent flexibility of the program to address those needs. The fundamental idea is local decision making to address local needs. With regard to flexibility in addressing those needs, the Act provides local officials with 25 different eligible activities and three national objectives. Using this broad "a la carte" menu of activities and national objectives, CDBG grantees design unique programs intended to address those local needs.

Correlation Between Compliance and Performance

Comment 3

Secondly, we disagree with OIG's opinion that there is no correlation between compliance and performance. On page 9, the OIG describes the reporting of the single most important element of the CDBG program – the benefit to low- and moderate-income persons – as "not representative of performance." To state that HUD's equating of "compliance accomplishment with good performance" "may not have been the case" and that "these same grantees may not be building viable urban communities" are opinions unsubstantiated by any statement of fact in this report. On page 8, the OIG states that counting housing units and jobs are poor performance indicators and that smoke detectors, which save lives, are meaningless. On what basis should HUD adopt these opinions? The OIG also takes issue with reporting accomplishments under several programs in instances where there are multiple funding streams. How does the OIG believe an activity should be pro-rated in these circumstances? This perception fails to recognize that funding decreases over the years such that now multiple sources of financing are often needed to carry out community development activities on a broader scale. Further, on page 9, the OIG asks whether jobs could have been created "without

Comment 4

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 5

3

CDBG program assistance.” This is not a CDBG requirement. Finally, on page 10, the OIG believes that a scoring system, like that used by HUD to rate public housing authorities, will assist performance measurement and that, without it, grantees will not be held accountable. What is the basis for such a supposition? It is a huge leap of faith to say that the presence of a score leads to improving specific grantee performance problems and correcting identified deficiencies.

Comment 6

We also noted that the OIG's finding, "HUD could not provide assurance that its monitoring efforts resulted in improved grantee performance" is incorrect and unsubstantiated. The report's summation of monitoring problems discovered in several communities lacks a basis for the conclusions drawn.

Comment 7

- In Buffalo, NY, there is a prefatory statement of the City's Consolidated Plan goals. How does HUD's identification of "many deficiencies and issues" diminish the City's "ability to attain stated goals"? Measuring the City from year to year does not account for our requirement to assess compliance with program requirements. It is unclear how the OIG has arrived at the conclusion that our monitoring does not appear to result in a "lasting effect" or "benefit to the process." (Page 13, Finding 2)

Comment 8

- Similarly, the write-up for Newark, NJ does not provide a basis for the OIG's conclusion that HUD's monitoring was ineffective. The OIG's report fails to mention that the referenced report number 99-KC-244-1002 was referred to the deputy secretary and the OIG's recommendation regarding the grantee not demonstrating low to moderate income benefit was overruled. The report also mentions timeliness problems in 2001 and 2002. Was there a timeliness report in 2007? (The audit period covered through 9/30/06). How does the City's failure to describe match requirements for the ESG program in its Consolidated Plan bear any relationship to the CDBG program? (Page 13, Finding 2) It is worth noting that finding 2 contradicts the GAO's report¹ dated July 2006 which states, "HUD's timeliness policy has reduced the number of entitlement communities that are slow to expend funds."

Comment 9

- The discussion regarding the City of Saint Louis, Missouri, begins with the same statement used to discuss Buffalo about 1999 Consolidated Plan goals. The OIG fails to explain how the City's inclusion of housing goals in its 2004 Consolidated Plan leads to the conclusion that the "housing issues in the City did not improve." Housing is a principle use for CDBG funds and it would not be unexpected to continue to see this as a grantee goal in successive Consolidated Plans.

Comment 10

- In another area, the OIG seems to be inconsistent in its position: it both criticizes HUD for its perceived inadequacy in counting jobs at the same time it criticizes the City for failing to "adequately improve in key areas of performance, such as

¹ GAO-06-732: Community Development Block Grants: Program Offers Recipients Flexibility but Oversight Can Be Improved. Dated July 2006. pg 32

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 10

4

job creation and retention.” And it appears to have reached these conclusions because of problems with Section 108 loan repayments when the Consolidated Plan contained “significant housing goals.” (Page 13, Finding 2)

Comment 11

- On page 18, the report states that similar deficiencies were noted in other cities. Given the obscure logic and lack of supporting evidence, it is questionable what these problems were. If the OIG is using them to make its case, include them in the report.

Comment 12

Further, it is not clear what is meant by the OIG’s conclusion on page 2 that “HUD should assess the impact of its CPD monitoring on performance and increase incentives to improve grantee performance and compliance by using all of its available sanction authority” or what the logical connection on page 18 is to improving monitoring effectiveness “by *more thoroughly communicating* to grantees the impact of noncompliance on performance.” (emphasis added)

Comment 13

Failure to Acknowledge HUD’s Action

As written, the report takes HUD to task in a number of places for failing to have “systems” or ensuring actions that, in fact, are not required. There is no requirement to have a *system* to measure the impact of HUD’s monitoring efforts (page 1). There is no requirement to measure *how* grantees increase “neighborhood health” (page 1) or whether “investments demonstrated increases in neighborhood health” (pages 5 and 12). There is also no requirement for HUD to implement a *system* for demonstrating achievement of primary objectives, improvement of grantee performance, and accountability for poor performance. Notwithstanding this, CPD has a number of systems and processes in place for determining the extent to which the primary objectives of the program are met and for identifying and addressing deficient performance. CPD also adheres to the Department’s *policies and processes* for compliance monitoring. It is a rebuttable presumption that, because the OIG does not appear to recognize or agree to the systems and processes that HUD and CPD have in place, this represents a significant weakness. [Page 22, Significant Weaknesses] This report appears to suggest that HUD should ignore or, at best, reinterpret the GAO internal control standard for monitoring (GAO/AIMD-00-21.3.1, 11/99) which is defined as *assessing* the quality of performance over time...” The OIG believes we should, instead “measure how grantees performed over time” (page 9).

Comment 14

Finally, we take exception to the fact that OIG didn’t give HUD credit for the performance measurement system that was designed in consultation with stakeholders. This is particularly disturbing due to the fact that an enormous amount of thought, time, energy and resources were put into this process. GAO notes that, “to further track program accomplishments, HUD has developed a new performance measurement system for the CDBG program. HUD’s new outcome performance measurement system has three objectives: (1) creating suitable living environments, (2) providing decent affordable housing, and (3) creating economic opportunities. Under these broad objectives, there are three outcomes: (1) availability and accessibility, (2) affordability, and (3) sustainability. The specific outcome indicators that HUD will track include the

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 14

5
number of persons assisted by a public service activity, number of housing units rehabilitated, and number and types of jobs created. Recipients could start entering the new performance measurement data in May 2006."²

Other actions taken by HUD that should be noted are:

Comment 15

1. The revised *CPD Monitoring Handbook 6509.2 Rev-5* and the new GMP Monitoring Module represent both a process and a system for conducting monitoring and assessing the impact of monitoring efforts. In fact, its existence serves to keep HUD off of the GAO's high risk list for previously-identified monitoring deficiencies.
2. CPD has a ranking and rating system for individual grantees in its risk analysis process. That the OIG concluded that those grantees deemed high risk by Field Offices still had problems would appear to validate CPD's risk analysis process.
3. The *CPD Monitoring Handbook 6509.2 Rev-5* contains exhibits for assessing grantees' compliance with the Consolidated Plan requirements (see Chapter 20).

Comment 16

Lack of Understanding of the CDBG and Other CPD Programs
In several places, the draft audit shows a basic lack of understanding of the program and suffers from problems with terminology. On page 2, the report uses terms that are not universally defined for the CDBG program. The OIG expects HUD to "answer key performance questions" such as whether rehabilitation or homeowner assistance is "cost effective;" did "the rehabilitation improve the structure substantially;" and was a homeowner able to "maintain a house" (emphasis added). Similarly, on page 9, the OIG criticizes the reporting of job creation statistics as virtually meaningless because HUD did not report whether the jobs were "high paying," didn't know how long they were expected to last, nor "at what cost in resources were the jobs created." Not only is there a lack of common understanding, it isn't clear what useful purpose it would serve to define them within the context of a national program based on local discretion.

Specific examples of OIG's lack of understanding of the CDBG program are:

Comment 2

1. On page 8, the top paragraph states that it isn't in "HUD's best interest to invest funds in a community that is not viable." This completely ignores the entitlement nature of the program and the local discretion that is inherent in the program's design.

Comment 17

2. Page 10, Grantees Were Not Held Accountable for Performance: The OIG defines "real sanctions" as debarment and limited denials of participation and, further states, that without these sanctions, "grantees will never improve." CDBG funds are provided to units of local government. Under what circumstances does the

² GAO-06-732: Community Development Block Grants: Program Offers Recipients Flexibility but Oversight Can Be Improved. Dated July 2006. pg 21

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 17

6

Department debar, or impose a limited denial of participation on, a unit of government?

Comment 18

Another area of the draft audit report that shows a basic lack of understanding is in regards to the Consolidated Plan. On page 4, last paragraph, it is incorrect to say that the Consolidated Plan process combines the CDBG program with HOME and ESG. It combines the *application process*.

Specific Comments to Finding 1 and Finding 2

Finding 1 Comments

Recommendation 1A - Adequately define "viable urban community" and how, specifically, this goal is to be achieved and measured for poor performance in its CDBG program.

Comment 2

The concept of a viable urban community cannot be reflected in a static measure as communities are dynamic and change is constantly occurring. One community's definition of what makes it a viable and attractive place to live will almost certainly be different than the definition developed by its neighboring jurisdictions. An attempt by HUD to define this term would be an exercise in futility, wasting valuable resources in an attempt to find a "one size fits all" concept that will not reveal any meaningful information with regard to the nation's communities.

Comment 19

Innumerable socioeconomic indicators already exist to provide a picture of the well-being of the nation's communities. HUD and its grantees are best served by utilizing these data to help shape our view of the CDBG program and its impact. For example, one of the CDBG performance indicators in the Department's Annual Performance Plan (APP) analyzes local CDBG investments in activities that promote economic opportunity in jurisdictions having unemployment levels above the national average. Another indicator examines median home mortgage amounts in an attempt to gauge whether CDBG is having a positive impact on property values. To the extent that HUD can utilize existing measures and marry them to CDBG program data, there is a high level of value in comparison to a viable urban community indicator based solely upon the CDBG program.

Comment 2

Further, it should be pointed out that the Act discusses the "development" of viable urban communities as the primary objective of the CDBG program. It is not a finish line to be crossed but rather an on-going effort to establish and maintain the conditions that make a neighborhood or community an attractive place to live and work.

To this end, CPD makes great effort to ensure that grantees implement their activities and utilize funds on a timely basis by monitoring expenditure levels throughout the fiscal year.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 20

7

1B – Design a performance measurement system that allows HUD to report, not just outputs, but meaningful outcomes, such as the extent to which grantees meet their own goals and the objectives of the CDBG program.

The draft audit report displays a lack of understanding of CPD's consolidated planning process and its new performance measurement framework. It is through the Consolidated Plan process of 24 CFR 91 that CPD's formula grantees set forth their broad goals for a three to five year period and action plans delineate specific annual actions intended to achieve those goals. Grantees are required to report annually on performance through submission of their Consolidated Annual Performance and Evaluation Reports (CAPERs). These planning and reporting tools are critical components to HUD and grantee management of the CDBG program but are not utilized as a point of reference in the audit.

Comment 21

In March 2006, CPD implemented a wide ranging performance measurement framework that covers its formula programs, most notably CDBG. This effort, undertaken during the preceding two years in partnership with public interest groups and the Office of Management and Budget, rated only a passing reference and a footnote in the draft audit. It would appear that there was no consideration given to the purpose, structure and components of the framework or to updates of CPD's IDIS to provide for the collection of performance information. Efforts to train grantees on the use of the framework were also not mentioned.

This conclusion is made evident by the job creation performance indicators suggested on page 9 of the draft audit. The audit suggests eight different questions on jobs that are unanswered by CDBG and /or IDIS. The audit fails to convey that CPD:

- Has estimates of the number of jobs expected to be created or retained;
- Can count the actual number of jobs created or retained;
- Calculates full-time equivalent positions;
- Counts number of new or existing businesses created;
- Tracks newly created jobs with employer-sponsored health benefits;
- Counts the number of previously unemployed persons employed as a result of CDBG assistance; and
- Counts the number of jobs created by types as defined by the Economic Development Administration.

Many of these indicators overlap with the suggestions made by the draft audit. Significant additional indicators have been added in the housing area. Taken in its entirety, the CPD performance measurement framework is having a significant impact with regard to our understanding of the impact of CDBG funds at the local level. To call for a more meaningful performance measurement system ignores the large steps already taken in this direction.

Comment 22

CPD has limited sanction authorities to hold grantees accountable for performance against stated goals. To address this shortcoming, the CDBG reform

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 22

8

legislation that has been forwarded to Congress in each of the past two years contains provisions to amend section 104 of the Act. This legislation would create a specific authority to have grantees establish goals and concurrently enable HUD to be able to hold grantees accountable for making progress toward those goals. The proposed sanction authority would allow HUD to reduce or withhold from the grantee future CDBG funding for failure to make adequate progress toward self-established goals. To this point, there has been no congressional interest in moving the CDBG reform proposal forward.

IC – Design a ranking and rating scoring system for individual CDBG grantees so that HUD and stakeholders can identify and address both good and bad program performance.

Comment 23

Some programs administered by the Department lend themselves to simple evaluation processes as they are limited in the scope of activities that may be carried out with the funds. The fewer activities undertaken through a given program, the easier it is to develop a performance index for that program. As noted earlier, CDBG has 25 different eligible activities which can be undertaken to achieve any of three national objectives. This level of flexibility combined with the fact that 1,187 CDBG grantees receive amounts ranging from \$100,000 to \$185 million makes it exceptionally difficult to envision any rating system that would have any real value.

The Act enables grantees to make decisions on how to allocate the CDBG to locally established priorities and leaves many of the implementation details to their discretion. To the extent that a grantee identifies a need for a housing safety and security program, they may elect to use CDBG funds for emergency HVAC repairs or minor improvements such as the installation of smoke detectors or stronger locks and doors. Alternatively, if a grantee identifies a need for full house rehabilitation at a cost of \$30,000 per unit, that too is eligible under the program. The inherent difficulty in comparing one such eligible activity to another should be self-evident.

The Act also mandates citizen participation at the local level in establishing CDBG program priorities. This process gives local stakeholders the ability to provide input on local priorities and program design. Grantees take this responsibility seriously and utilize the process to help shape the contours of their programs. Grantees are also required to take public comment on their annual reports to HUD. Through these processes, local stakeholders do have opportunities to evaluate and have input upon local CDBG program implementation and execution.

Comment 22

The Act does not provide HUD with strong tools to address poor performing grantees. Section 104(e) and section 111 of the Act form the basis of HUD's sanction authority in the CDBG program. Both are exceptionally blunt tools that are difficult to use given grantees' right to due process. The CDBG regulations at 24 CFR 570, Subpart O, implement these statutory provisions and provide guidance on corrective and remedial actions available to CPD staff.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 22

9

It should be noted that the regulatory ability to restrict grantee access to CDBG funds is limited and, on several key points, the regulations state that CPD can only "advise grantees to suspend disbursement of funds" for deficient activities and "advise the recipient to reimburse its program account ... in any amounts improperly expended...". While Subpart O alludes to simple processes for conditioning the use of funds (570.910(b)(8)), reduction, withdrawal or adjustment of a grant (570.911) and termination, reduction and limitation of payments to grantees (570.913(a)), they ultimately run into the administrative appeal process identified in 570.913(c).

ID – Continue to assess and improve IDIS so that data used for reporting can be relied upon as an accurate and complete representation of CDBG grantee performance.

Comment 24

This particular finding in the draft report is extremely outdated and unsupported. The second paragraph on page 11 appears to repeat complaints about IDIS from the past without considering changes that have been made since 2004. The charge that IDIS has "major design flaws" is totally unsupported and a gratuitous comment that should be dropped from this section.

The report backs up its conclusion that IDIS data remain unreliable by referring back to data issues noted by two GAO reports³. OIG fails to acknowledge that the recommendations for the GAO audit GAO-99-98 have been corrected and closed since 2000 and IDIS is being re-engineered which will correct the recommendation in GAO-06-732. Further, the report makes no recognition of the fact that several major releases to IDIS have been made since 2004 that have considerably improved performance reporting by CDBG grantees. Specifically, on:

- December 12, 2005, HUD released version 9.0 of IDIS which completely revised the activity path for the CDBG program and added edits that performance reporting across all IDIS screens for an activity must be consistent or else the grantee is now prevented from changing the status of the activity to "Complete".
- May 12, 2006, HUD released version 10.0 of IDIS that added consistent performance measurement screens to each program path for all four formula grant programs.
- April 2, 2007, HUD released version 10.2 of IDIS which required that starting October 1, 2006, grantees had to report accomplishments using the new "performance measurement" screens for all activities still active as of that date.

With these changes HUD disagrees that the CDBG program cannot be appropriately measured for effectiveness. The performance measurement reporting functionality that has been added to IDIS was developed with the help of grantees and public interest groups and was endorsed by OMB. Grantees also had to develop this

³ GAO-99-98, Dated April 27, 1999, "Community Development: Weak Management Controls Compromise Integrity of Four HUD Grant Programs," and GAO-06-732, dated July 2006, "CDBG: Program Offers Recipients Flexibility but Oversight Can Be Improved."

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 24

10

capacity locally to capture the new data required for the process. Based on the mandatory reporting date (October 1, 2006), HUD is currently assessing the reporting by CDBG grantees for FY 2007. HUD also wishes to point out that an independent contractor of OCIO's Enterprise Architect Office recently looked at the performance reporting done by grantees for HUD's PAR and concluded that the results reported by HUD met at least a Sigma 4 standard for accuracy.

1E – Consider reassessing the future viability of the CDBG program for its ability to achieve stated objectives.

Comment 25

The Administration considered this issue in the development of its FY 2006 budget proposal when it sought to consolidate CDBG with 17 other community development programs under the heading of the Strengthening America's Communities Initiative (SACI) to be administered by the Commerce Department. The proposal had no traction with Congress or local government officials. As a result, the Administration's FY 2007 (and FY 2008) budget proposal called for CDBG to be administered at HUD with a funding level of \$3 billion. Concurrently, HUD proposed CDBG reform legislation would improve the targeting of funds to needier communities, enhance HUD's ability to hold grantees accountable for performance and establish a competitive component to the CDBG program as an incentive for grantees to target funds to high need areas. While Congress has failed to act on the CDBG reform proposal, HUD continues to seek legislative changes that would improve program targeting and performance.

Comment 26

It should be noted that Congress has approved annual appropriations for CDBG in FY 2006 and 2007 at a level of \$3.7 billion and it appears that a similar level of funding will be provided in FY 2008. From this perspective, both the Administration and Congress has already made an assessment of the viability of the CDBG program. Further, Congress views CDBG as a unique vehicle to provide funding for disaster recovery purposes. Since 2001, Congress has utilized CDBG to provide \$3.4 billion in recovery funds to the city and state of New York for recovery efforts in Lower Manhattan, \$150 million in 2005 to ten states in response to the 2004 hurricane season and \$16.7 billion for Gulf Coast recovery subsequent to Hurricanes Katrina, Rita and Wilma in 2005. The choice of CDBG as a primary conduit for the delivery of recovery funding reflects a "real world" assessment of the viability of the CDBG program and its ability to address local needs in a flexible way.

Finding 2 Comments

2A – Establish controls to ensure that CPD monitoring efforts are consistently applied, streamlined to emphasize high-impact activities, and focused on promoting improvement in program participant performance.

Comment 27

This recommendation is unclear. What does it mean to "Establish controls to ensure that CPD monitoring efforts are ...streamlined to emphasize high-impact activities..."? (Emphasis added) And with respect to that aspect of this recommendation pertaining to "promoting improvements in program participant performance," is the OIG

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 27

11

recommending that the agency devote its scarce resources to measuring performance over our statutory requirement to assess regulatory compliance? It is extremely troubling that the OIG labels HUD's monitoring for compliance a *deficiency* – when it is required by program statutes, internal control procedures, and Departmental policy via the Compliance and Monitoring Initiative.

CPD monitoring efforts are consistently applied through mandatory use of the Monitoring handbook issued September, 2005. Grantee monitoring focuses on high risk areas identified in the annual grantee risk analysis process. It would not be appropriate to streamline monitoring efforts to de-emphasize compliance. The main purpose of monitoring is to test grantees' compliance with regulations. Policy performance is impacted by compliance. Monitoring cannot guarantee improvement in grantee performance. The regulations prescribe HUD's limited authority to sanction CDBG grantees based on performance.

2B – Assess the impact of CPD monitoring on performance resulting from grantee compliance with recommendations.

Comment 28

Assessing impact of CPD monitoring on performance resulting from grantee monitoring is reviewed each year as part of grantee risk analysis process which focuses on compliance as well as performance. Field offices can conduct follow-up monitoring to assess whether or not grantee implemented corrective actions that impact compliance and performance.

2C – Increase incentives to improve grantee performance and compliance by using all available sanction authority.

Comment 29

Available sanction authority on CDBG grantees is limited to that prescribed by CDBG regulations. See paragraphs 4 and 5 under 1C for the sanction ability under the CDBG regulations.

This concludes our comments on the OIG's draft report on monitoring controls and procedures for the CDBG program.

Cc: James A. Heist, Assistant Inspector General for Audit, GA

OIG Evaluation of Auditee Comments

Comment 1 CPD officials disagree with the audit findings stating that the draft audit is based on incorrect premises. Officials contend that OIG does not understand the CDBG program, fails to coherently and logically assemble factual evidence to support its conclusions and has not recognized corrective actions already taken by CPD. These assertions are contrary to the facts and conclusions contained in our audit findings. The draft audit is based on correct premises drawn from interviews with CPD directors and staff, review of CPD files, monitoring reviews and our extensive knowledge of the CDBG program, our conclusions are supported by factual evidence, and corrective actions in place were recognized and taken into consideration. Thus, CPD officials have attempted to disparage the audit report instead of addressing the core issues and conclusions of the report, which is to ensure that CDBG grantees are improving their communities with HUD funds.

Comment 2 CPD officials contend that the draft audit report appears to be based on an OMB assessment conducted in 2003 which identified the CDBG program as ineffective. Further, officials question defining how CDBG funding builds viable urban communities and state known facts about the program's flexibility that allows local decision making to support their local needs. In addition, officials misinterpret the report saying that OIG would have all 1,187 communities eligible to receive CDBG funds in 2007 follow a single definition of viable urban community. However, we remind CPD officials that the development of viable urban communities is the *primary* objective of the CDBG program. Thus, officials are inappropriately linking the entitlement nature of the program with the need to define a viable urban community. Logic dictates that HUD should strive for a working definition of a viable urban community to be utilized in measuring how grantees are progressing in achieving the primary program objective. The conclusion drawn by CPD officials confuses the *common goal* of all grantees achieving viable urban communities with the vastly different *methods* that individual grantees may use to meet their various local needs while attaining HUD objectives. The mere fact that grantees have programmatic flexibility at their disposal does not guarantee that their program will achieve CPD objectives. The fact that all grantees are unique and enjoy programmatic flexibility only enforces the idea that HUD needs to be able to link grantee local compliance to the grantee's overall performance in meeting its local needs. Thus, HUD should be able to measure performance at the grantee level.

Our field work disclosed that several grantees have not measurably improved over many years, despite large CDBG investments and substantial local discretion. Thus, OIG maintains that CPD needs to clearly define what constitutes a viable urban community so that grantees can report on exactly how their activities improved their communities and assisted with making them viable or livable.

Comment 3 CPD officials state their disagreement to an incorrect quote regarding the lack of correlation between compliance and performance. At no point in our audit report

do we provide the opinion that there is no correlation between compliance and performance. We maintain that compliance with national objectives is important and noteworthy, but HUD needs to relate a grantee's general compliances to its overall performance in meeting CDBG objectives. As finding two of the report supports, many grantees may be in compliance with the low to moderate income national objective, but have not improved performance over many years.

- Comment 4** CPD official's quotation that OIG believes that counting housing units and jobs are poor performance indicators and that smoke detectors are meaningless is false and misleading. Further, CPD officials question our conclusion regarding the reporting of accomplishments under several programs in instances where there are multiple funding streams. The draft report actually states that installing smoke detectors is commendable and potentially life saving, however the reporting of outputs, including housing and jobs, without equating them to grantee performance is meaningless. The example provided in the draft report is not the life saving nature of the smoke detectors, but rather the meaningless nature of equating such rehabilitation costs to grantee and/or nationwide performance statistics. In regards to the reporting of accomplishments, the officials seem to confuse the ability to complete an activity with the overall effectiveness of the activity. We remind CPD officials of the need to be able to measure the relative effectiveness and efficiency of their programs, as required by the Government Performance and Results Act of 1993. Further, if the activity has more than one source of funding, CPD needs to ensure that they are not double counting their successes.
- Comment 5** CPD officials contend that the OIG believes that a scoring system, like that used by HUD to rate public housing authorities, will assist performance measurement and that, without it, grantees will not be held accountable. Our report states that a scoring system would assist performance measurement in a number of ways, as detailed on page 10 of our report. As noted in Comment 2 above, the CDBG program is inherently flexible with local decision making to address local needs. Thus, performance measurement tools should assess success and failure at the local grantee level.
- Comment 6** CPD officials contend that the facts as presented in finding 2 are incorrect, unsubstantiated, and the summation of monitoring problems lacks a basis for the conclusions drawn. Our conclusions were based on well documented records of facts about CPD grantee program activities, drawn substantially from CPD field office staff monitoring. In fact, we commended HUD for its ability in identifying many grantee deficiencies and for offering meaningful recommendations for corrective actions. Nonetheless, it is our contention that since several grantees have experienced numerous, often repetitive, and serious deficiencies over a period of several years, these facts substantiate our conclusion that HUD's monitoring efforts have not provided assurance of improvements in grantee performance.

Comment 7 The fact that HUD has identified many issues and deficiencies associated with the City of Buffalo that continued to occur over several years, clearly indicates that the city's ability to attain stated goals has been diminished. Moreover, since HUD continuously cited this grantee for program noncompliance and continued problems throughout the audit period reviewed, our conclusion that there did not appear to be a lasting effect or benefit to HUD's monitoring processes, is both clear and valid.

Comment 8 CPD officials address issues relating to the Cities of Newark, NJ and Saint Louis, MO. Specifically, officials contend that report details pertaining to the City of Newark, NJ does not provide a basis for the OIG's conclusion that HUD's monitoring was ineffective. We disagree with this contention since the audit report cites several examples of deficiencies noted for the City of Newark, NJ that continued to occur over several years and throughout our audit period; which supports our conclusion that the monitoring does not appear to be effective.

Further, regarding St. Louis audit report number 99-KC-244-1002, which disclosed that the grantee's activities had not demonstrated low to moderate income benefit; this statement of fact was never overruled by the deputy secretary. To the contrary, even though the grantee thought the activity would create 325 jobs for low-and moderate-income persons, the facts showed that no such jobs were created. Thus, the fact that CPD allowed the grantee to substitute a different national objective for the activity, since the grantee could not demonstrate low to moderate income benefit, does not make this issue overruled.

In addition, officials question how the City's failure to describe match requirements for the ESG program in its Consolidated Plan bears any relationship to the CDBG program. We must remind CPD officials that HUD's Consolidated Plan includes the CDBG program with the HOME Investment Partnership and Emergency Shelter Grant (ESG) programs, all of which are used in achieving the grantees priority needs. Thus it was CPD Newark field office officials who noted that the City's action plan did not describe how the ESG matching requirement would be satisfied and how the ESG proposed activities correspond to the priority needs identified in the consolidated plan. Obviously, attaining ESG matching fund requirements is an important element of a successful ESG program, as is ensuring that funded activities will address the grantees overall priority needs.

Lastly, Officials commented on the timeliness issue discussed in the finding. They contend that finding 2 contradicts a July 2006 GAO report, which states that HUD timeliness policy has reduced the number of entitlement communities that are slow to expend funds. Our finding does not contradict the GAO report, it points out that timeliness issues continued to plague the City of Newark over several years, and therefore, monitoring may not have been effective. However, judging by the comments of CPD officials, HUD is equating a reduction in the number of communities that are slow to expend funds to mean an elimination of the problem.

Comment 9 CPD officials state that housing is a principle use for CDBG funds and it would not be unexpected to continue to see this as a goal in successive consolidated Plans for the City of St. Louis. However, officials fail to consider the entire context of having the top priority of housing as a successive goal. The City of Saint Louis, MO. cited in its 1999 Consolidated Plan that Housing is top priority and need. Further, the City expressed difficulty in concluding whether or not the level of substandard buildings was greater in 1999 than it was in 1994. Further, in 2004 the City of Saint Louis cited that the need for quality affordable housing among low and moderate income families remains significant, leading to the conclusion that housing issues in the city did not improve from 1999 to 2004. Thus, HUD officials failed to identify the success of St. Louis' housing work and whether HUD's investments in St. Louis' housing market increase neighborhood health in St. Louis.

Comment 10 CPD officials contend that the draft audit report is inconsistent in regards to the counting of jobs and job creation and such conclusions are based on problems with Section 108 loan repayments when the consolidated plan contained significant housing goals. However, CPD officials failed to mention that the City of Saint Louis has undertaken numerous economic development projects that did not meet HUD requirements for retaining and creating jobs, and that projects were funded, but the city could not demonstrate that jobs for low-to-moderate-income persons were created or retained. Thus, the City failed to improve in key areas of performance, such as job creation and retention. Secondly, the CPD officials appear to suggest that report conclusions pertaining to job creation and retention issues were based on problems with Section 108 loan repayments. The Section 108 issues were presented to show the impact and extent to which loan repayments have reduced the number of dollars available for other CDBG program activities. Even the City of Saint Louis in its 2004 action plan expressed concern over its use of CDBG funding for Section 108 loan repayments, specifically stating that these repayments would result in even fewer dollars being available for CDBG program activities.

Comment 11 CPD officials cite obscure logic and lack of evidence to support deficiencies noted in other cities. As explained in the report background section, we analyzed HUD monitoring of a sample of 10 entitlement grantees. As such, in the spirit of preparing a concise finding, detailed discussions of deficiencies was limited to four of the 10 grantees reviewed. These similar repeat findings for the other six grantees were obtained from CPD officials own monitoring reports, however since we have substantial supporting evidence, a synopsis of the deficiencies noted can be provided upon request.

Comment 12 CPD officials express confusion in regards to the logical connection of the report conclusions. The report findings and recommendations are presented to offer HUD sound advice and recommendations on how to improve the effectiveness of their monitoring efforts. Naturally, if HUD assesses the impact of its CPD

monitoring on performance and increases incentives to improve grantee performance and compliance by using all of its available sanction authority, the ability of grantees to improve performance would certainly be enhanced. Moreover, by more thoroughly communicating to grantees the impact of noncompliance on performance, grantees would have a better understanding of how noncompliance affects performance, and it would also emphasize and reiterate to grantees the merits of continually striving for improved performance.

- Comment 13** CPD officials contend that OIG takes HUD to task for failing to ensure actions that are not required. Specifically, there is no requirement to measure the impact of HUD monitoring, measure increases in neighborhood health, implement a system for achieving the primary objective, improve grantee performance or hold them accountable for poor performance. Officials state that they have a number of systems in place to determine the extent of meeting the primary objective of the program and identifying and addressing deficient performance. However, they state that the draft audit report suggests that HUD should ignore or reinterpret the GAO internal control standard for monitoring which is defined as assessing the quality of performance over time. On the contrary, our conclusions pertaining to measuring grantee performance over time, is consistent with GAO standards. The GAO Standards require that internal control monitoring assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. As such, the controls that CPD states are not required should be developed to enhance the quality of the CDBG program in ensuring that grantee and HUD goals are achieved.
- Comment 14** CPD officials contend that OIG did not give HUD credit for the performance measurement system that was designed in consultation with stakeholders. Contrary to this assertion, we acknowledge that CPD has established its Outcome Performance Measurement System for Community Planning and Development formula grant programs on page 7 of the audit report. However, since this performance system is just now providing its first full year of data, which has not yet been analyzed by HUD, and is based upon grantee data in IDIS, an information system that continues to provide unreliable data; we determined that CPD has not adequately demonstrated that the CDBG program was achieving its primary objectives, or that individual grantees were improving over time and were held accountable for poor performance.
- Comment 15** CPD officials provide a listing of actions taken by HUD that they contend should be noted in the audit report. Specifically, officials refer to the revised CPD Monitoring Handbook 6509.2 Rev-5 and to its ranking and rating risk analysis process. While we are aware of HUD's revised handbook and risk analysis process; these actions do not address the fact that CPD needs to focus its monitoring on ensuring that grantee general compliances relate to overall performance and the achievement of both grantee and CDBG goals.

- Comment 16** CPD officials state that the report shows a lack of understanding of the program and OIG expects HUD to answer key performance questions. Thus, officials question why OIG wants a cost effective use of CDBG funds, the importance of lasting job creation, and rehabilitation that is substantial. We refer CPD officials to the Government Performance and Results Act (GPRA) of 1993, which provides Congress objective information on the achievement of statutory objectives and the relative effectiveness and efficiency of Federal programs and spending. We question the fact that it appears that CPD officials through their comments do not want to be able to measure the effectiveness of CDBG dollars invested and whether the funds have a lasting benefit.
- Comment 17** CPD officials state that CDBG funds are provided to units of local government and question under what circumstances does the Department debar, or impose a limited denial of participation on a unit of government. We recommend that HUD explore all available sanctions when they are aware of non-compliance and/or poor performance. Grantees must be held accountable for CDBG funding that is misappropriated and one way HUD can hold them accountable is through sanctions.
- Comment 18** CPD officials state that the Consolidated Plan process does not combine the CDBG program with HOME and ESG, but rather combines the application process. However, every grantee we reviewed included the CDBG program with HOME and ESG in their Consolidated Plan. Thus, explaining how these programs will aid in addressing their priority needs.
- Comment 19** CPD officials cite socioeconomic indicators that already exist and various performance indicators as effective measurement tools to provide a picture of the well being of the nation's communities. However, currently HUD has not adequately reported on whether or not various grantees are effectively using CDBG funds in developing viable urban communities. Thus HUD's current performance indicators do not show nor measure how CDBG funds are making an impact in helping grantees to meet its priority needs and in creating viable communities.
- Comment 20** CPD officials refer to the CAPER and consolidated planning process as a critical tool for grantee management. While we agree that the CAPER and consolidated planning process are important and commendable tools for HUD management, these documents tend to report outputs and not outcomes; thus, they do not measure the success or effect of the consolidated plan activities completed. As detailed in finding 2, our review disclosed numerous examples of grantees that have reported annually via CAPERs, but have not measurably improved their communities over time. Further, we recommend that HUD begin to measuring grantee performance over its 5-year Consolidated Plan period to ensure that they are working to achieve local goals.

- Comment 21** CPD officials contend that the March 2006 implementation of the performance measurement framework is having a significant impact with regard to their understanding of the impact of CDBG funds at the local level. However this framework is so new that the first year of data is just now being reported for FY 2007. Accordingly, since the data has not yet been fully analyzed by HUD, there is no indication that the new measurement tools will be able to measure grantee performance, effectiveness of output activities, and efficiency in using Federal funding. Thus, although we acknowledge CPD's new system, the data is still out on its success.
- Comment 22** CPD officials state that HUD has limited sanction authorities to hold grantees accountable for performance against stated goals and that legislation reform has been forwarded to Congress. We strongly agree with HUD's efforts to address current sanction shortcomings with reform legislation attempts, however, until such reforms are implemented, HUD needs to effectively utilize the sanctions that are currently available, and continue to pursue Congress on this issue.
- Comment 23** CPD officials contend that a ranking and rating system for individual grantees is not feasible due to the program's complexities. The official's contention appears to confuse program flexibility and local decision making with the need to measure good and bad performance at the grantee level. We stand by the fact that five CPD Directors agreed with our recommendation that a ranking and rating of grantee performance would be a useful tool for HUD and its stakeholders. This recommendation addresses an issue of vital importance to HUD, since there is currently no objective system for comparing good and bad grantees.
- Comment 24** CPD officials state that the draft audit report section that refers to IDIS as extremely outdated and unsupported, and that our charge that IDIS has major design flaws is totally unsupported and should be removed from the report. Officials continue on to cite the numerous updates and improvements to IDIS as proof that IDIS is now reliable. However, we stand by our report conclusions. Although there have been some improvements to the IDIS, HUD has not demonstrated that IDIS provides accurate and complete data, as confirmed by HUD field office officials during our review, and CPD's comments that they are still assessing grantee reporting for FY 2007.
- Comment 25** CPD officials state that legislation has been proposed to improve the targeting of funds to needier communities, enhance HUD's ability to hold grantees accountable for performance, and establish a competitive component to the CDBG program as an incentive for grantees to target funds to high need areas. Thus, the proposed legislation is acknowledgment by HUD that improvement is needed in several areas. We concur that HUD needs improvement in these areas and that implementation of our recommendations in this report would assist in doing so. For example, the rating and ranking of grantees objectively for performance would assist in objective determinations for providing incentive funding and grantee accountability.

Comment 26 CPD officials state that the administration and Congress has already assessed the viability of the CDBG program by deciding to continue funding. In addition, the officials state that Congress views CDBG as a unique vehicle to provide funding for disaster recovery purposes. However, the officials confuse the utilization of CDBG as a conduit for disaster funding in New York and the Gulf Coast as a real world assessment of the viability of the CDBG program. Based upon the conditions disclosed in our audit, we conclude that HUD should continue to improve the controls over and assess the viability of the CDBG program and advise Congress and the administration accordingly.

Comment 27 CPD officials express confusion regarding our recommendation to establish controls to ensure that CPD monitoring efforts are consistently applied, streamlined and focused on improvement. Further, the officials contend that our report labels monitoring for compliance as a deficiency. To the contrary, the recommendation is both clear and concise. It is important to note that the recommendation is not suggesting that HUD ignore their statutory requirement to assess regulatory compliance. Rather, the recommendation emphasizes the need for HUD to focus on promoting improvements in program participant performance. Ironically, the officials are conveniently silent with regard to their own stated policy contained in Handbook 6509, which provides that monitoring is the principal means by which the Department assists program participants in improving their performance. Thus, HUD should not just monitor for compliance, but they must relate the compliance with the grantee's overall performance to ensure that stated goals are achieved.

Comment 28 CPD officials state that assessing the impact of monitoring on performance resulting from grantee compliance with the recommendations occurs each year as part of the grantee risk analysis process. Thus, field offices can conduct follow-up monitoring to assess whether or not grantee implemented corrective actions impact compliance and performance. While we are well aware that HUD can conduct follow-up monitoring, to ensure that HUD assesses the impact of monitoring on performance, these actions which are responsive to our recommendation need to be documented. Currently, monitoring reports are not adequately relating grantee compliance to overall performance and the achievement of stated goals.

Comment 29 CPD officials do not disagree with the recommendation to increase incentives to improve grantee performance and compliance by using all available sanction authority. Rather, officials state that available sanction authority on CDBG grantees is limited to that prescribed by CDBG regulations. Accordingly, we stand by our recommendation that HUD explore all available sanctions when they are aware of non-compliance and/or poor performance, and that HUD should continue to advise congress on the need for better sanctions.