

GAO

United States General Accounting Office

Report to the Secretary of Housing
and Urban Development

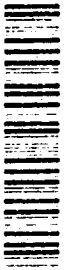
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January 1991

COMMUNITY DEVELOPMENT

Oversight of Urban Grant Monitoring Needs Improvement

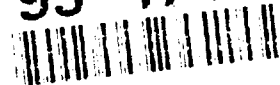
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Resources, Community, and
Economic Development Division

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January 30, 1991

The Honorable Jack Kemp
The Secretary of Housing and Urban
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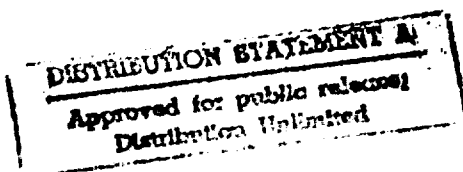
Dear Mr. Secretary:

We undertook a review of three Department of Housing and Urban Development (HUD) field offices (Baltimore, Maryland; Columbus, Ohio; and Detroit, Michigan) to determine how they monitor entitlement grantees of Community Development Block Grants (CDBG). We initiated this effort because of (1) the importance of the CDBG program as a source of federal funds for community development and (2) the numerous problems the Office of Inspector General (OIG) identified in the administration of grantees' CDBG programs. Our objective was to determine the adequacy of the supervisory and evidentiary controls these field offices exercise over their staff's on-site monitoring of selected entitlement grantees. We also assessed the extent to which these offices use information found in OIG audits to plan their monitoring.

Results in Brief

Weaknesses in HUD's guidance for monitoring entitlement grantees may have contributed to less than adequate supervisory and evidentiary control practices. Current guidance does not prescribe standards for supervisory review of documents (working papers) used to support conclusions from on-site monitoring and for observation of on-site monitoring. Nor does the guidance adequately specify requirements for working papers. Supervisors in the field offices rarely accompany their staff during on-site reviews of grantees or examine the documentation. Furthermore, the files on grantees rarely include complete documentation describing the activities that were monitored or supporting the conclusions that were reached. Without more complete documentation, supervisors cannot assess the adequacy of these on-site reviews, and monitoring staff, who are periodically reassigned to new grantees, may duplicate the work of their predecessors. In addition, the findings in OIG audits of entitlement grantees are rarely used when field office staff plan their monitoring.

Without adequate supervisory and evidentiary controls over its monitoring program, HUD cannot ensure that management problems are detected or that its staff do not duplicate previous work. In addition,



without using information found in OIG reports when planning their monitoring, field offices may not be using their limited resources most effectively.

Background

The CDBG program has long been the principal federal community development program providing funds, according to a predetermined formula, for metropolitan cities and urban counties (entitlement communities) and for small cities. HUD's Office of Community Planning and Development (CPD) operates the CDBG entitlement program, which assists local governments in meeting locally defined community development needs. The primary objective of the CDBG program is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income. Each entitlement community develops its own program to meet these goals and sets funding priorities.

The CDBG entitlement program began in 1975 with \$2.2 billion in funds for 594 entitlement communities. Since its inception, funding has totaled about \$38 billion. In fiscal year 1990, funding amounted to \$2.0 billion for a total of 844 communities. The estimated funding for fiscal year 1991 is \$1.9 billion.

From 1985 through 1989, the OIG issued more than 100 reports on the CDBG entitlement program, nearly all of them on individual entitlement communities. These reports contained numerous findings—including problems involving the management of grantees' CDBG programs, the eligibility of CDBG activities, and grantees' monitoring of subgrantees—and recommendations.

Section 104(e) of the Housing and Community Development Act of 1974, as amended, requires that HUD, at least annually, make such reviews and audits of entitlement grantees as may be necessary or appropriate to determine, among other things, whether they have carried out activities receiving CDBG funds in accordance with the act. One of HUD's primary tools for assessing an entitlement grantee's compliance with the act is on-site monitoring. According to HUD's CPD Monitoring Handbook, the overriding goal of monitoring should be to identify deficiencies and promote corrections in order to improve, reinforce, or augment the grantee's performance. The handbook also says that monitoring is intended to assist states and localities in improving their performance, to ensure that federal funds are being managed properly and are not

being wasted or used for fraudulent purposes, and to keep HUD well-informed about the effectiveness of its programs.

HUD carries out its monitoring program through a nationwide network of 30 field offices and 10 regional offices. Typically, CPD representatives within each field office are responsible for monitoring the entitlement grantees assigned to them. Part of that responsibility is to coordinate the reviews conducted on-site by all other field office monitoring staff. CPD representatives prepare strategies for monitoring their assigned grantees, which their supervisors review and approve. HUD notifies each grantee by letter of the conclusions drawn from the on-site review. According to the CPD Monitoring Handbook, this monitoring letter must state positive and negative conclusions for each program area monitored and specific steps the grantee can take to resolve each finding. The letter must also describe the scope of the review, including all areas and activities monitored.

Better Controls Over On-Site Monitoring Are Needed

Supervisory controls over monitoring staff in the three field offices we visited were limited. Supervisors did not routinely review the files kept on each grantee to assess the adequacy of the documentation for on-site reviews. Furthermore, supervisors generally limited their assessment of their staff's on-site reviews to an examination of monitoring strategies and letters. Supervisors rarely accompanied their staff on visits to entitlement grantees. Inadequate headquarters guidance for supervisory review of working papers and observation of on-site monitoring may have contributed to these problems.

Supervisors Do Not Routinely Review Files

Although two of the six supervisors told us that they occasionally review the files kept on entitlement grantees, none of the six routinely reviewed them to ensure that the results of on-site reviews were supported by adequate documentation and that their staff carried out their monitoring thoroughly and as planned. Specifically, supervisors typically limited their oversight to reviewing monitoring strategies, monitoring letters, and correspondence between the field office and the grantee.

According to the CPD Monitoring Handbook, persons responsible for concurring with monitoring letters "should assure themselves that all findings have been correctly identified and, as such, are based on applicable law or regulation." However, the handbook does not specifically require supervisors to concur with or approve monitoring letters, or review the

files to ensure that they contain adequate documentation to support conclusions drawn in the letters. The three CPD field office directors we visited agreed that the supervisors should be reviewing the files for adequate documentation. In addition, the Director of CPD's Office of Field Operations and Monitoring stated that supervisors should review these files to ensure that the staff are monitoring grantees as planned.

According to the field office supervisors, they do not routinely review the files because the monitoring letter itself documents the scope of issues and activities monitored and the conclusions reached. Two CPD directors told us that supervisors also rely on discussions with their staff to ensure that they are monitoring grantees as planned. They also noted that grantees would bring to their attention any inaccurate negative conclusions drawn from the visit. While we agree with this latter statement, we do not believe that grantees would necessarily inform the field office if positive conclusions were inaccurate or if the on-site review was not thorough. The Director of the Office of Block Grant Assistance agreed that if a CPD representative did not thoroughly review a grantee's activities or correctly identify a problem with the grantee's performance, the grantee would have no incentive to bring these matters to HUD's attention. He acknowledged that, as a consequence, problems may go undetected. Another HUD headquarters official stated that the supervisor should be required to review not only the monitoring letter but also the support for its findings.

Because supervisors in field offices do not routinely review the documentation in the files, they cannot ensure that activities that should be monitored are monitored. Nor can they ensure that the monitoring is thorough. Thus, an entitlement grantee's management problems may go undetected.

Supervisors Observe On-Site Monitoring Too Infrequently

In two field offices we visited, supervisors rarely accompanied their staff on site visits to assess the thoroughness of the monitoring. In 1989, supervisors in these field offices accompanied staff on only 7 of 78 visits to grantees. In the third field office we visited, the supervisor accompanied his staff on four of the six on-site reviews conducted last year. The CPD director of that field office attended all exit conferences with grantees in 1990.

Although the CPD position description states that supervisors are required to oversee monitoring staff and evaluate their performance, it does not specifically require that supervisors periodically accompany

their staff on site visits as part of this oversight function. The CPD Monitoring Handbook also has no such requirement. Rather, the handbook states that each CPD division director should consider spot reviews by supervisors to ensure a uniform quality of monitoring consistent with headquarters guidance. However, the three CPD directors we interviewed agreed that supervisors should observe their staff's on-site monitoring more frequently to better ensure that it meets acceptable standards. The Director of the Office of Block Grant Assistance agreed that supervisors should periodically accompany their staff on visits to grantees.

CPD officials said that a shortage of travel funds limits supervisors' ability to accompany their staff. According to a recent HUD report addressing staffing and travel resource requirements in HUD's various rehabilitation programs, including the CDBG program, 71 percent of CPD directors said they had insufficient travel funds to provide adequate oversight.¹ We observed, however, that in the entitlement communities located within HUD's defined local travel area (50 miles), where travel expenses would be minimal, supervisors were rarely accompanying their staff on site visits. For example, in one office 22 of the 42 entitlement communities were located within the local travel area, but supervisors accompanied staff on only 3 of the 22 visits made to monitor the communities in the local travel area during 1989.

Without observing on-site monitoring, it is difficult for supervisors to adequately assess the quality of their staff's work. For example, accompanying their staff would allow supervisors to observe how the review team conducted the visit and made on-the-spot judgments when reviewing files. Also, we believe that unless supervisors observe work conducted on-site, problems that should be detected through thorough monitoring may go undetected.

Better Documentation of On-Site Monitoring Is Needed

The working papers we found in monitoring files were not adequate to document the support for the conclusions reached in the monitoring letters or to record the work performed. Typically, these files contained copies of the monitoring strategy and the monitoring letter. Although some files contained documents obtained during the on-site review, it was not clear how they related to or supported the conclusions made in the monitoring letter. Furthermore, while the monitoring strategies and the monitoring letters included some statements about the areas and/or

¹Secretary's Task Force on Program Financial Management—Staffing and Travel Resource Requirements for Managing Rehabilitation Programs, HUD (May 14, 1990).

activities monitored, the files rarely showed the scope of the review. These problems may be due to the fact that the CPD Monitoring Handbook does not adequately specify working paper requirements.

Support for Conclusions Drawn From On-Site Monitoring Is Inadequate

We found that the files on grantees did not include adequate documentation to support conclusions reported in the monitoring letters. For example, while 15 of the 26 files contained copies of some documents reviewed on-site, in only 8 files were we able to link any of these documents or notes to conclusions in the monitoring letter.

According to HUD's CPD Monitoring Handbook, on-site monitoring should be well documented. Furthermore, the monitoring letter should be supported by any working papers used during the visit. All correspondence and working papers relevant to these visits and the conclusions drawn from them must be in the field office's file on the grantee. The problems we found indicate that more specific guidance may be necessary.

CPD officials cited two reasons for the inadequate documentation. First, time spent preparing working papers would detract from the little time they have to monitor grantees on-site. Second, the grantee would be likely to inform the field office of any inaccurate conclusions.

As stated above, we agree that if a monitoring letter includes an inaccurate negative conclusion, the grantee would be likely to bring this fact to the field office's attention. However, if the monitoring letter draws inaccurate positive conclusions or does not discuss an activity that was monitored, the grantee would not necessarily inform the field office. Furthermore, without adequate documentation, supervisors cannot assess whether the on-site reviews were adequate or whether the conclusions drawn from them are supportable. More specific requirements for documenting both negative and positive conclusions would help ensure that those conclusions are adequately supported.

Documentation of Areas and Activities Monitored Is Inadequate

Although all of the monitoring letters included some description of the activities monitored, the files on grantees rarely showed the scope of the review. For example, only 4 of the 26 files we examined included some form of documentation for all of the activities that were mentioned in the monitoring letter. Some of the letters identified activities for which a negative concern or finding was reported, but they did not always identify those without problems. Fourteen of the 26 files we reviewed contained notes from the site visit. Furthermore, we found inconsistencies

in what the staff thought was required by the CPD Monitoring Handbook to be in the field offices' files on grantees.

Poor documentation of on-site monitoring is a longstanding problem. Several OIG studies dating back to 1985 and as current as April 1990 reported that the documentation supporting the scope and the results of monitoring was generally insufficient. For example, a 1988 OIG report noted that monitoring letters did not always identify specific files or cases that were reviewed and found deficient.²

According to the CPD Monitoring Handbook, the monitoring letter must describe the scope of the review, including all areas and activities monitored if less than the total program was reviewed. As previously mentioned, the handbook also states that monitoring letters should be supported by working papers. In addition, in a 1985 audit report, the OIG underlined the importance of full documentation, stating that adequate and complete documentation enabled supervisors to ensure proper coverage of the areas monitored and the conclusions reached.³

We attribute the incomplete documentation of work performed on-site, in part, to the lack of standards for working papers. Although the CPD Monitoring Handbook calls for working papers and includes suggested checklists, it does not define the content of working papers, and checklists typically require only yes/no responses. Furthermore, as a 1990 OIG report noted, the extent of the documentation required is left to the discretion of the individual staff member.⁴ In two field offices we visited, the CPD directors recently encouraged staff to include any working papers from their on-site review in their file on the grantee but did not provide the staff with specific guidance or a definition of working papers. In an attempt to do so, HUD recently revised its CPD Monitoring Handbook to include suggested checklists. However, although half of the staff we interviewed said they used the checklists, most CPD supervisors said the checklists are not specific enough and are useful only for new or inexperienced staff.

²Community Planning and Development Program, Resolution of Monitoring Findings and Use of Sanctions and Remedies, Chicago Regional Office and Detroit Office, HUD, Office of Inspector General, No. 88-CH-145-0002 (Mar. 4, 1988).

³Internal Audit - Effectiveness of CPD Program Performance, Accountability Monitoring of Grantees, Fort Worth and New Orleans Offices, HUD, Office of Inspector General, No. 85-FW-145-0005 RO-85-3 (Sept. 20, 1985).

⁴Review of CDBG Program Income and Miscellaneous Revenue, HUD, Office of Inspector General, No. 90-TS-145-0011 (Apr. 30, 1990).

Without adequate documentation, new or reassigned monitoring staff may duplicate previous work because there is no record. Also, staff may neglect to monitor activities that should have been monitored, but were not, under previous plans. Such problems are especially likely to arise because staff members periodically change assignments. In one field office we visited in which all assignments were changed during a 1-year period, a staff member newly assigned to a grantee was unaware that her predecessor had maintained documents in files separate from the official file until we discovered them.

In its 1990 report on grantees' CDBG program income, the OIG noted that the absence of adequate and uniform monitoring procedures had resulted in inconsistent monitoring of grantees and had diminished CPD management's assurance that program income was adequately considered during on-site reviews.⁵ The report found that the files on grantees generally did not contain detailed working papers, questionnaires, or other checklists necessary to evaluate the effectiveness of the monitoring or, where applicable, the corrective action recommended.

OIG Audit Reports Are Not Fully Used

The field offices did not fully use the information OIG reports provided to help them plan their monitoring. OIG audit reports on entitlement communities can be an important resource for managers and staff who are responsible for monitoring CDBG grantees' activities. Although in the last 5 years the OIG issued 12 reports on grantees covered by these three field offices, only two staff reported that they used reports to plan later on-site monitoring. Furthermore, while the OIG issues a total of about two CDBG-related reports each month, those reports are distributed only to the field office responsible for monitoring that grantee. Moreover, within field offices, staff seldom share OIG audit reports to help identify similar problems with other grantees. At the field offices we visited, OIG audit reports were distributed only to the field office staff responsible for overseeing the grantee. Once the responsible staff member addresses the findings in the OIG audit report, the reports generally are filed separately from the file on the grantee.

According to the CPD Monitoring Handbook, in preparing for visits to monitor grantees, the staff should review data available within the field office, including audit reports and grantees' responses to audit findings. Although the handbook does not require the staff to review findings from audit reports on other grantees, most HUD officials agreed that

⁵Review of CDBG Program Income and Miscellaneous Revenue

broader distribution of the OIG reports, both to field offices nationally and within field offices, could benefit the staff as they plan their monitoring strategies. By using information from the OIG reports, field office staff could more effectively identify similar problems with assigned grantees and HUD could better identify recurring management problems and better plan its monitoring efforts.

Conclusions

Without better supervisory and evidentiary controls over on-site monitoring, supervisors cannot ensure that their staff monitor grantees as HUD intended and that grantees' management problems are detected and corrected. In addition, establishing an audit trail that includes adequate documentation is important because of the periodic changes in monitoring staff. Furthermore, by more systematically using information from OIG audit reports on entitlement communities, field offices could better plan their monitoring activities and more effectively identify problems that may exist in the management of grantees' CDBG programs.

Recommendations

To improve the overall effectiveness and efficiency of on-site monitoring of CDBG grantees, we recommend that the Secretary of Housing and Urban Development direct the Assistant Secretary for CPD to

- revise the CPD Monitoring Handbook to (1) require staff to include in their files on individual grantees adequate working papers that clearly show the scope and work performed during on-site reviews, (2) instruct staff on what constitutes adequate working papers and how to prepare them, and (3) provide guidance to supervisors on reviewing working papers and supervising site visits, and
- distribute to all field offices copies of all OIG systemic audit reports that identify emerging patterns of deficiencies in grantees' management practices or HUD's oversight, and provide field offices with summaries of OIG audits of individual grantees containing findings that CPD and the OIG believe may indicate new areas for HUD monitoring to emphasize or areas in which grantees' performance could improve.

Agency Comments and Our Evaluation

The Assistant Secretary for CPD agreed with our findings, noting that HUD headquarters staff have made similar findings. The Assistant Secretary agreed with our recommendation on the need to revise the CPD Monitoring Handbook and stated that she has directed that the handbook be revised to incorporate our recommendations on the documentation and supervision of monitoring activities.

Concerning the dissemination of OIG audit reports, the Assistant Secretary for CPD suggested an alternative to our draft proposal that HUD distribute all OIG audit reports concerning CDBG entitlement activities to all regional and field offices responsible for monitoring grantees. She suggested that systemic OIG audit reports and summaries of other relevant OIG audit reports on individual grantees be made available to all field offices. We agreed that this approach would reduce paperwork and still provide the CPD monitoring staff with more complete information so that they can better plan and carry out their monitoring. We revised our recommendation accordingly. A copy of the agency's comments on the draft report is in appendix I.

Scope and Methodology

To determine how CPD staff document their on-site monitoring, how the staff are supervised, and how OIG reports are used, we visited HUD headquarters and several judgmentally selected offices: the regional offices in Chicago and Philadelphia and the field offices in Baltimore, Maryland; Columbus, Ohio; and Detroit, Michigan. At these locations, we interviewed CPD staff responsible for the CDBG program, including CPD directors, deputy directors, supervisors, representatives, financial analysts, and rehabilitation specialists. We also judgmentally selected 26 1989 files on grantees to review the documentation the CPD staff maintain on their on-site monitoring. In addition, we discussed with OIG officials at headquarters and the regional OIG offices in Chicago and Philadelphia their reviews of CDBG activities and the distribution of their reports. We conducted our work between January and June 1990 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Director, Office of Management and Budget, and interested congressional committees and subcommittees. We will also make copies available to others upon request.

Should you require any additional information on this report, please contact me at (202) 275-5525. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "John M. Ols, Jr.".

John M. Ols, Jr.
Director, Housing and Community
Development Issues

Comments From the Department of Housing and Urban Development



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

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

NOV 20 1991

Mr. John M. Ols, Jr.
Director, Housing and Community
Development Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Ols:

Thank you for affording me the opportunity to comment on the Draft Report: Community Development: Oversight of CDBG Monitoring Needs Improvement, (GAO/RCED - 91-23).

The Draft Report contains several findings of fact with respect to supervisory and evidentiary controls exercised by Field Office managers in the monitoring of CDBG entitled jurisdictions. I believe the scope and methodology of the GAO survey provided a sufficient base for the findings developed during the course of the GAO review. In the conduct of performance reviews of Field Offices by staff from Headquarters, similar findings have been made by my staff.

With respect to the recommendations contained in the Draft Report, I have instructed my staff make the revisions suggested by GAO in the CPD Monitoring Handbook and to take steps to ensure performance reviews by Headquarters include spot checks of Field Office implementation of these changes. The HUD OIG and I have agreed to make available to HUD Field Offices copies of the OIG systemic audit reports which identify emerging patterns of grantee or HUD oversight deficiencies. We will provide summaries of those individual grantee audits which contain findings that CPD and the OIG believe may indicate new areas for HUD monitoring emphasis or improved grantee performance.

Please convey to the GAO staff contributing to this Report my sincerest appreciation for the professionalism displayed in their analysis of the issues reviewed. The recommendations you

Appendix I
Comments From the Department of Housing
and Urban Development

- 2 -

have made will contribute materially to my goal of ensuring the CDBG funds are being effectively used to make a positive impact on the lives of the lower-income population this program was designed to serve.

Very sincerely yours,


Anna Kondratas
Assistant Secretary

Major Contributors to This Report

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