

GAO

Report to the Chairwoman,
Subcommittee on Housing and
Community Opportunity, Committee on
Financial Services, House of
Representatives

September 2010

**COMMUNITY
DEVELOPMENT
BLOCK GRANTS**

**Entitlement
Communities' and
States' Methods of
Distributing Funds
Reflect Program
Flexibility**



GAO

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Highlights of [GAO-10-1011](#), a report to the Chairwoman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The Housing and Community Development Act of 1974 (act) creating the Community Development Block Grant (CDBG) program provides entitlement communities (metropolitan cities and urban counties) and states with significant discretion in how they distribute funds for eligible activities. Because of this discretion, entitlement communities may use a variety of processes to select individual projects and states may also use different methods to distribute funds to non-entitlement communities.

GAO was asked to report on (1) the various methods by which entitlement communities use and distribute their CDBG funds to individual projects within their jurisdictions; (2) the various methods by which states distribute CDBG funds to non-entitlement communities; and (3) HUD's role in overseeing these methods. GAO interviewed CDBG administrators for 20 entitlement communities (the 10 largest by funding and 10 randomly selected) and 5 states (reflecting variety of methods used and geography) and reviewed documents related to their CDBG funding decisions, including the annual action plans for all 50 states. GAO also spoke with CDBG stakeholders, reviewed relevant statutes and regulations, interviewed HUD field office staff and reviewed monitoring documentation.

[View GAO-10-1011](#) or [key components](#).
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September 2010

COMMUNITY DEVELOPMENT BLOCK GRANTS

Entitlement Communities' and States' Methods of Distributing Funds Reflect Program Flexibility

What GAO Found

Reflecting the program's flexibility, the 20 entitlement communities in GAO's sample distributed CDBG funds by various methods, but most used some level of competition in awarding funds. Distribution priorities and practices were based on various assessments of local needs, and in some communities, the funding decisions were also part of the local budget process. To communicate processes and award decisions to the public, all the communities in GAO's sample held at least two public hearings, more than half formed citizen advisory committees, and a few conducted needs assessment surveys, among other outreach methods. Sampled entitlement communities varied in the level of detailed criteria they used to evaluate applications, but they made the information available to potential applicants through published instructions, workshops, or the Internet.

From a review of all 50 states' methods of distribution described in annual actions plans, GAO found that states used a formula, competition, open application, or a combination of methods to distribute funds to non-entitlement communities. Most states used a combination of competitive and open application processes. Whatever their method of distribution, the five states in GAO's sample evaluated applications to some degree against state priorities, which reflected a variety of needs assessments. States using some competitive distribution processes also incorporated their priorities into the scoring of applicants. All five states communicated their methods of distribution to non-entitlement communities and the public through their required annual plans and additional publications, workshops, and intergovernmental organizations. Of the non-entitlement community officials with whom GAO spoke in 10 localities, all agreed that their states clearly communicated their distribution process.

HUD staff from 17 field offices (which monitor the entitlement communities and states in GAO's sample) reported very few findings or concerns related to methods of distribution. Staff told GAO that the lack of findings was due partly to program design (entitlement communities and states can choose distribution methods) and partly to HUD's risk-based monitoring. Because of the flexibility granted to entitlement communities and states, issues related to distribution methods are not rated high-risk. HUD has focused on higher-risk areas such as ensuring funds were spent on eligible activities. However, because states distribute funds to other government jurisdictions, they are required to describe their distribution methods in their plans. As part of its monitoring review, HUD staff check to ensure that the methods of distribution that state plans described were the methods used. Though few issues arose from the reviews, in a few cases HUD staff recommended that states enhance these descriptions. HUD staff also monitor grantees to ensure that public hearing and notice requirements have been met. Staff noted that none of the complaints to HUD offices had pertained to methods of distribution.

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Abbreviations

CAPER	Consolidated Annual Performance and Evaluation Report
CDBG	Community Development Block Grant Program
CPD	Office of Community Planning and Development
HUD	Department of Housing and Urban Development
PER	Performance and Evaluation Report
RFP	Request for Proposal

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United States Government Accountability Office
Washington, DC 20548

September 15, 2010

The Honorable Maxine Waters
Chairwoman
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
House of Representatives

Dear Madam Chairwoman:

The Community Development Block Grant (CDBG) program provides federal funding for housing, economic development, neighborhood revitalization, and other community development activities. Administered by the Department of Housing and Urban Development (HUD), the CDBG program provides funding to metropolitan cities and urban counties, known as entitlement communities, and to states for distribution to non-entitlement communities. The activities undertaken with program funds must meet one of the three national objectives: (1) principally benefit low- and moderate-income persons, (2) aid in the prevention or elimination of slums or blight, or (3) meet urgent community development needs. In fiscal year 2010, Congress appropriated approximately \$3.95 billion for the entitlement and non-entitlement program. Currently, 1,163 entitlement communities and 50 states receive CDBG funds.¹

The Housing and Community Development Act of 1974 (act), as amended, provides entitlement communities with significant discretion in how they distribute funds for eligible activities. State grantees have similar discretion in how they distribute funds to non-entitlement communities.² Consequently, entitlement communities and states may use a variety of processes to select individual projects and units of local governments to implement projects respectively. Because of the variety of methods, you

¹The 50 state recipients include Puerto Rico but not Hawaii because it has permanently elected not to receive state CDBG program funding. HUD awards funds by formula directly to the non-entitlement areas of Hawaii (three counties). The District of Columbia is considered an entitlement community for CDBG funds.

²The CDBG program was authorized under Title I of the Housing and Community Development Act of 1974 (Pub. L. No. 93-383, codified as amended at 42 U.S.C. 5301 *et seq.*). In 1981, Congress amended the act to allow states the opportunity to administer CDBG fund for non-entitlement communities—units of general local government that do not receive CDBG funds directly from HUD as part of the entitlement program.

requested that we conduct a study identifying the types of distribution methods used by entitlement communities and states. Specifically, our objectives were to (1) identify and describe examples of the various methods by which entitlement communities use and distribute their CDBG funds to individual projects within their jurisdictions, (2) identify and describe examples of the various methods by which states distribute CDBG funds to non-entitlement communities, and (3) describe and examine HUD's role in overseeing the methods by which entitlement communities and states distribute their CDBG funds.

To address the first objective, we conducted a literature review and examined reports related to CDBG. We also interviewed the CDBG administrators for the 10 largest entitlement communities (by funding) to determine how they distribute their funds and how they communicate those processes and results to the public. We drew a sample of 10 additional communities, considering city/county status and geography, and conducted similar interviews with CDBG administrators. These entitlement communities were selected for comparative and illustrative purposes. Results from this nongeneralizable sample cannot be used to make inferences about all entitlement communities nationwide. We also judgmentally selected 3 communities (from the 20), taking into account geographic and program diversity, and interviewed stakeholders involved in the CDBG process, such as community organizations and members of citizen advisory committees. For the second objective we reviewed the most recently available annual action plans covering 2008 through 2010 (required and reviewed by HUD) for all 50 states to identify the types of methods of distribution. From this review, we judgmentally selected five states that represented a variety of distribution methods, geography, and funding amount, and we interviewed their CDBG administrators. We also interviewed local non-entitlement officials about the CDBG process and how it is communicated to the public. For both objectives, we interviewed issue-area experts and relevant associations such as the National League of Cities and the Council of State Community Development Agencies to obtain their views on the distribution process. For the third objective, we reviewed relevant statutes and regulations to understand HUD policies and practices for oversight of methods of distribution and to determine how the agency ensures states' compliance with the requirement to publish their distribution methods. Finally, we interviewed HUD staff from

the 17 field offices that oversee our selected entitlement communities and states.³

We conducted this performance audit from November 2009 to September 2010 in accordance with generally accepted government standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. (More information on our scope and methodology is contained in app. I.)

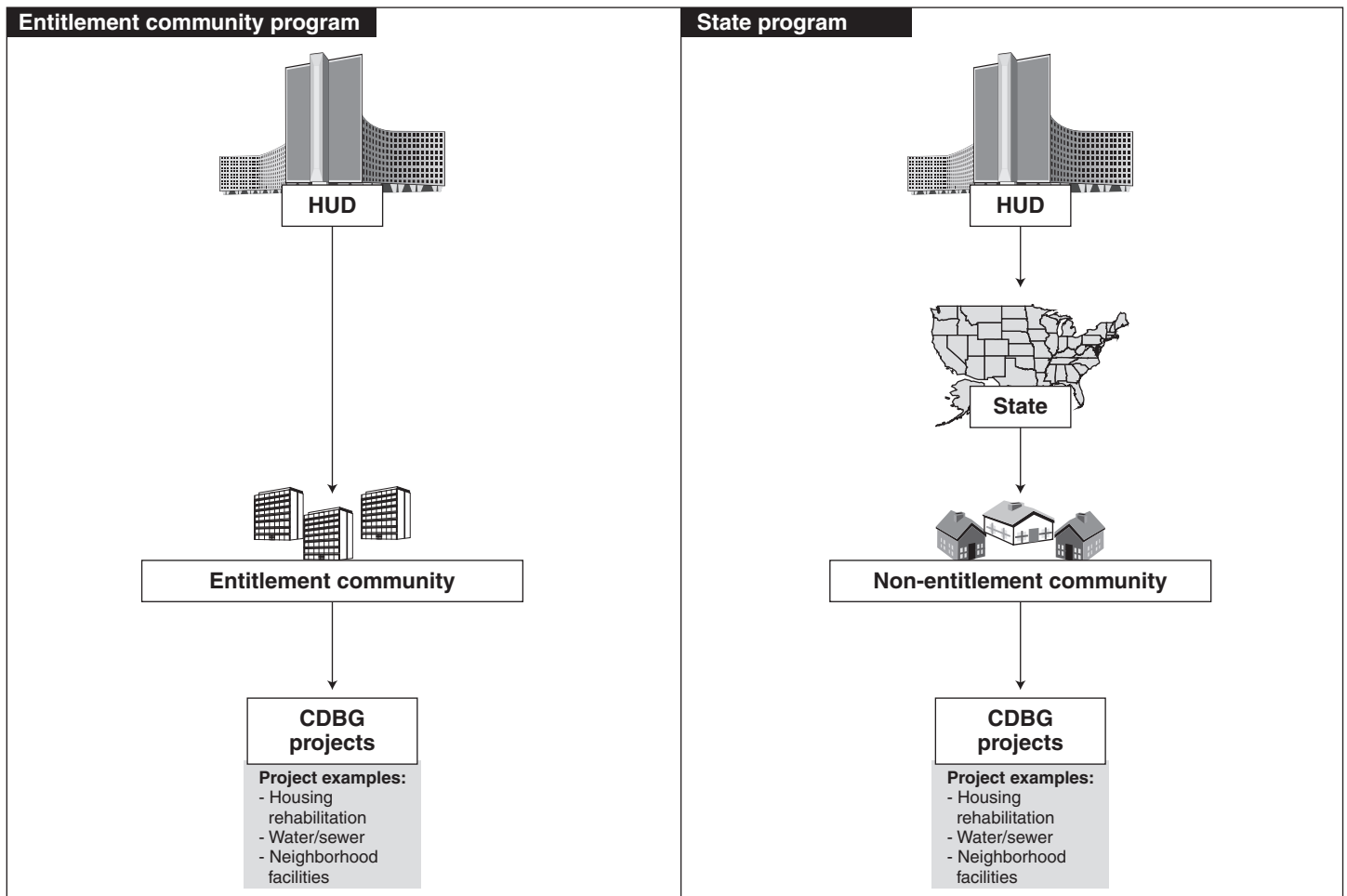
Background

The CDBG program has two basic funding streams (see fig. 1). After funds are set aside for purposes such as the Indian CDBG program and allocated to insular areas, the annual appropriation for CDBG formula funding is split so that 70 percent is allocated among eligible metropolitan cities and urban counties (entitlement communities) and 30 percent among the states to serve non-entitlement communities.⁴ Entitlement communities are (1) principal cities of metropolitan areas, (2) other metropolitan cities with populations of at least 50,000, and (3) qualified urban counties with populations of at least 200,000 (excluding the population of entitled cities).

³During our review, we interviewed staff from 6 HUD regional offices and 11 field offices. To facilitate the discussion in the draft, we used the term “field offices” to cover all 17 of the offices we contacted.

⁴Total set-asides for fiscal year 2010 are \$457 million. Under the Indian CDBG program, HUD provides competitive grants to federally recognized Indian tribes and to certain tribal organizations. The four insular areas are American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands.

Figure 1: Flow of CDBG Funds from HUD to Local Communities



Source: GAO analysis; Art Explosion (images).

HUD distributes funds to entitlement communities and states using a dual formula system in which grants are calculated under two different weighted formulas and grant recipients receive the larger of the two amounts. The formulas consider factors such as population, poverty, housing overcrowding, the age of the housing, and any change in an area’s growth (growth lag) in comparison with other areas. HUD ensures that the total amount awarded is within the available appropriation by reducing the individual grants on a pro rata basis. Entitlement communities and states can have more than one agency administer parts of the CDBG program but one agency must be designated the “lead” (typically a Department of Community Development or similar entity) and single point of contact

with HUD. The entitlement communities may carry out activities directly or in the case of urban counties, they may award funds to other units of local government to carry out activities on their behalf. In addition, entitlement communities may award funds to subrecipients to carry out agreed-upon activities.⁵ Entitlement communities are subject to very few requirements relating to distribution of their CDBG funds. As long as entitlement communities fund projects that are eligible and meet a national objective, submit required plans and reports, and follow their stated citizen participation plans, they have a large amount of discretion as to how and what they fund. Unlike entitlement communities, states must distribute funds directly to recipients, which again are local units of government (non-entitlement cities and counties). The states' major responsibilities are to (1) formulate community development objectives, (2) decide how to distribute funds among non-entitlement communities, and (3) ensure that recipient communities comply with applicable state and federal laws and requirements.

Grant recipients are limited to 26 eligible activities for CDBG funding. For reporting purposes, HUD classifies the activities into eight broad categories—acquisition, administration and planning, economic development, housing, public improvements, public services, repayments of section 108 loans, and “other” (includes nonprofit organization capacity building and assistance to institutions of higher learning).⁶ Recipients may use up to 20 percent of their annual grant plus program income on planning and administrative activities and up to 15 percent of their annual

⁵Subrecipients can be independent governmental agencies, private nonprofits, and certain private, for-profit entities that facilitate economic development. If an entitlement community uses a subrecipient, it must enter into an agreement with that subrecipient that includes a statement of work—which describes the work to be performed, the schedule for completing the work, and the budget—and the recipient's recordkeeping and reporting requirements.

⁶Congress established the section 108 program in 1974 as part of the CDBG program. This program allows communities to borrow against their current and future CDBG allocations to fund larger-scale housing rehabilitation and community and economic development projects. See GAO, *Leveraging Federal Funds for Housing, Community, and Economic Development*, [GAO-07-768R](#) (Washington, D.C.: May 25, 2007).

grant plus program income on public service activities.⁷ Additionally, the act requires that recipients certify that they will use at least 70 percent of their funds for activities that principally benefit low- and moderate-income people over 1, 2, or 3 years, as specified by the recipient. Generally, an activity is considered to principally benefit low- and moderate-income people if 51 percent or more of those benefiting from the activity are of low- or moderate-income.

To receive its annual CDBG entitlement grant, a recipient must submit a 3 to 5-year consolidated plan, a comprehensive planning document and application for funding, to HUD for approval.⁸ This document identifies a recipient's goals, which serve as the criteria against which HUD will evaluate a recipient's performance annually. The consolidated plan must include a citizen participation plan for obtaining public input on local needs and priorities, informing the public about proposed activities to be funded, and obtaining public comments on performance reports. Annually, recipients must submit an action plan that identifies the activities they will undertake to meet the goals and objectives identified in their consolidated plan as well as an evaluation of past performance and a summary of the citizen participation process.⁹ Moreover, on an annual basis, recipients must submit a consolidated annual performance and evaluation report (CAPER) that compares proposed and actual outcomes for each goal and objective in the consolidated plan and, if applicable, explains why the recipient did not make progress in meeting the goals and objectives. Similar to entitlement communities, states must submit their consolidated plans, annual action plans, and performance and evaluation reports (PER). However, the states' action plans must describe methods for distributing funds to local governments to meet the goals and objectives in their

⁷Entitlement communities comply with these requirements by limiting the amount of funds they obligate for these activities during the program year, while states limit the amount they spend on these activities over the life of the grant. Public service activities funded through community-based development organizations—organizations authorized under 24 C.F.R. 570.204 to carry out special activities such as economic development or new housing construction—are not subject to the public service spending limit when they are carried out in a neighborhood revitalization strategy area.

⁸The consolidated plan covers CDBG and three other formula-based grant programs that HUD administers—the HOME Investment Partnerships, the Emergency Shelter Grants, and the Housing Opportunities for Persons with AIDS programs.

⁹The action plan is a section of the consolidated plan that includes a summary of the actions, activities, and programs that will take place during the next year to address the priority needs and specific objectives identified in the consolidated plan. It is updated annually to reflect what will be accomplished in that program year.

consolidated plans instead of a list of activities as provided by entitlement recipients.

HUD's Office of Community Planning and Development (CPD) administers the CDBG program through program offices at HUD headquarters and 43 field offices located throughout the United States. Staff in the headquarters offices set program policy, while staff in the 43 field offices monitor entitlement recipients directly and monitor the states' oversight of non-entitlement recipients.¹⁰ A CPD director heads each unit in the field offices. CPD field staff are responsible for grant management activities that include annual review and approval of consolidated plans and action plans, review of annual performance reports, preparation and execution of grant agreements, closeout activities, and technical assistance.

Entitlement Communities Drew on Program Flexibility in Distributing Their CDBG Funds and Communicating with the Public and Applicants

Reflecting the flexibility of the CDBG program, entitlement communities used various methods to distribute their funds. For example, most of the medium and large communities in our sample of 20 entitlement communities used competitive processes for a portion of their CDBG funds. These communities aligned award decisions with local priorities and, in some cases, elected officials and the budget process factored strongly in funding decisions. Some local officials told us they could adjust their funding priorities and practices from year to year as needed. To solicit public input and communicate processes and award decisions, all the communities in our sample met the program requirement to hold at least two public hearings, and most took additional steps, including holding multiple community meetings, forming citizen advisory committees, conducting needs assessment surveys, and making information available online. Most of the representatives of community organizations with whom we spoke thought the cities clearly communicated their distribution practices, although some thought that newer or less sophisticated applicants might have more difficulty obtaining funding.

¹⁰Some field offices monitor both entitlement and state recipients. However, because some field offices do not have any states within their jurisdiction, they monitor only entitlement recipients.

Entitlement Communities Selected Their Distribution Methods Based Largely on Local Priorities and Incorporated Political and Public Input

Our interviews with 20 entitlement communities demonstrated that the sample grantees took advantage of the CDBG program's flexibility to distribute their funds in the ways that the grantees felt fit their local needs and circumstances.

Distribution Methods and Application Process

Most of the medium and large entitlement communities with which we spoke had some level of competitive process for distributing CDBG funds, especially for public services such as childcare, senior services, or employment training.^{11,12} Some communities required government agencies to apply through the same process as nonprofits and other subrecipients. In several communities that distributed funds competitively, the CDBG administrators issued a request for proposal (RFP) describing the local funding priorities, eligible uses for CDBG funds, and, in some cases, specific selection criteria and related points for meeting those criteria. Processes for evaluating applications varied, but commonly involved some level of review by local staff, sometimes followed or accompanied by a review by program experts or a citizen committee. In several communities, the mayor, the local governing board (such as the city council), or both had input and final approval authority for funding recommendations. For example, in Los Angeles, CDBG administrative staff conducted a high-level review of all applications to ensure they were eligible and met a national objective. The departments that administered individual categories of funds then ran their own RFP processes and assembled teams of subject experts and department staff to evaluate proposals. The mayor and city council also had the opportunity to review projects that the departments recommended for funding. The city council issued the final approval following a public hearing at which council members, community organizations, and members of the general public could provide input on

¹¹Depending in part on local capacity, many communities also awarded funds to subrecipients to conduct activities such as housing development or counseling, economic development, and renovation of public facilities.

¹²After considering the range of HUD's 2010 CDBG allocations to 1,163 entitlement communities, we developed a classification system to describe the 20 communities in our sample. "Small" communities were those with allocations up to \$1 million, "medium" communities had allocations between \$1 million and \$10 million, and "large" communities had allocations of \$10 million and up. Our sample consisted of 7 small communities, 3 medium communities, and 10 large communities.

the funding recommendations. (See app. II for information on the methods used by all of the entitlement communities in our sample.)

A few of the small and medium-sized entitlement communities in our sample used large proportions of their CDBG funds for housing activities or public works projects, and they directly spent those monies through local governmental departments. For instance, Lincoln Park, Michigan, planned to spend more than 70 percent of its 2010 CDBG allocation on infrastructure projects such as streets and utilities, which the public services department would carry out or bid to private contractors. The Lincoln Park official we interviewed stated that capital improvement needs, such as streets and utilities projects, were the city's highest priority for CDBG funds due to a lack of other funds to carry out such projects. South Gate, California planned to direct about 50 percent of its 2010 allocation to the parks department, based on the results of a series of public and city staff meetings at which citizens and city officials agreed that their parks were the highest-priority need. In South Gate and a few other communities, the government agencies still had to submit letters of request or formal applications.

In cases in which smaller communities distributed funds to subrecipients, they often used less formal application and review procedures than some of the larger communities. For example, in Bismarck, North Dakota, which primarily distributed its funds to subrecipients, the CDBG administrator sent application packages to organizations on the city's mailing list and reached out directly to organizations of which she knew that might have had a CDBG-eligible funding need. A committee of two city officials and a nonprofit official reviewed the applications but did not use a formal ranking system. Gloucester Township, New Jersey, awarded funds based on a discussion between the council and mayor on how proposals met overall township needs. Some of the smaller communities in our sample did not receive applications from many more organizations than they could afford to fund. For instance, Bismarck funded 16 of 22 applications for 2010 and Dover, Delaware, funded 6 of 9 applications. Officials from Gloucester Township and Deltona, Florida, stated that they rarely rejected applications.

In a few entitlement communities, governmental departments that administered some funds in-house used first-come, first-served, or "rolling" application processes to make small awards for certain activities. For example, Cleveland's community development department used such a process to award funds for housing rehabilitation and storefront renovation programs. Gloucester Township's grants office planned to

Use of Consortiums for Addressing Local Needs

Two of the entitlement communities in our sample participated in consortiums with other local entitlement communities to more effectively target CDBG and other HUD funds, and reduce administrative costs. Specifically, the city of Gresham, Oregon, is a member of the Portland Consortium, which also includes the city of Portland and Multnomah County. While the two cities and the county each receive their own CDBG allocation and distribute the funds through separate processes, a Gresham official stated that the consortium allows them to prioritize needs on a metropolitan or regional level rather than separately for each jurisdiction. Likewise, the city of Sarasota, Florida, joined Sarasota County and the cities of North Port and Venice in a consortium that allows them to administer housing and community development programs and allocate resources based on the entire county's needs and not just individual jurisdictions. According to the Sarasota Consortium's 2005-2010 consolidated plan, this agreement creates a standard set of rules for housing and community development programs for all of the jurisdictions and reduces administrative costs by running programs through one central office.

award several small home improvement loans to low- and moderate-income residents for abatement of code violations and emergency repairs. Applicants had to meet certain income thresholds to qualify for the no-interest loans.

The three counties in our sample of entitlement communities used three different methods to distribute their CDBG funds, based on size and the capacity of their participating localities to administer the funds. For example, Los Angeles County, California, the country's largest urban county with a population of about 10 million people, distributed its funds to participating cities and unincorporated areas by formula.¹³ In turn, the participating cities could distribute their funds through competition or other methods, while the county's community development department worked with the county's five district supervisors to identify projects for funding in the unincorporated areas. Dane County, Wisconsin, ran a competitive process for most of its funds, citing the importance of providing standardized treatment across municipal, nonprofit, and for-profit applicants because of the high level of competing needs in the county. Greenville County, South Carolina, contracted with a countywide redevelopment authority to administer the funds. The redevelopment authority used a formula to determine the award amounts for the five local municipalities and a large unincorporated area. However, it retained control over the distribution method for all the funds, with some awards made competitively to nonprofit subrecipients and housing developers and others bid to contractors.

Officials from a majority of the entitlement communities in our sample noted that they based their funding priorities on various assessments of local needs, and these priorities influenced the selection of CDBG projects. They funded projects based on priorities identified in their consolidated plans, other strategy documents, or citizen input.¹⁴ For

¹³As an entitlement community, Los Angeles County does not include the cities of Los Angeles, South Gate, or other cities within the county that have their own entitlement community status. The Los Angeles County officials told us that the cities and unincorporated areas covered by the county's CDBG program have total populations of 1.2 million and 1.1 million, respectively.

¹⁴ HUD regulations (24 CFR 91.220(d)) state that entitlement communities must describe in their annual action plans the activities they will undertake to address the priority needs and objectives identified in their consolidated plans. We asked entitlement community officials to describe some of the key factors that influenced how they decided to use and distribute CDBG funds. While not all officials named the priorities in their consolidated plans as key factors, our interviews were not designed to determine compliance with the requirement.

instance, South Gate, California’s consolidated planning process resulted in the city’s focus on funding its parks. In addition, an official from Greenville County stated that the majority of funding for the county’s unincorporated area went to “target neighborhoods,” which had developed master plans to meet their most pressing needs.

In some of the larger entitlement communities we interviewed, elected officials’ priorities also factored strongly in the distribution process. Officials from Chicago, Detroit, and New York reported that their CDBG funding processes were integrated with their local budget processes.¹⁵ Therefore, CDBG spending priorities often were viewed in the context of mayoral and city council priorities, and the city’s current fiscal strength. Officials in Los Angeles stated that city council members sometimes made changes to proposed economic development or infrastructure projects based on their knowledge of what was needed in their communities. They added that council members occasionally tried to fund projects outside of the competitive process. In those cases, the administrative department reviewed the requests to ensure they met federal and city CDBG priorities. In addition, an official from Philadelphia stated that for 36 years, a consensus had existed between the mayor and city council that housing activities were the city’s highest CDBG priority.

Some communities drew on the CDBG program’s flexibility and revised their funding priorities or practices to adapt to local circumstances. They told us that severe (or catastrophic) weather events, economic conditions, or internal reviews had caused them to change their funding priorities or distribution methods. For example, the Deltona CDBG administrator stated that the city was considering revising its consolidated plan to focus on repairing the damage from recent hurricanes and other storms. Los Angeles officials stated that the recession had caused them to focus more heavily on family self-sufficiency and foreclosure prevention. In addition, Los Angeles recently changed the way it funded public service activities in response to a 2008 report by the city controller that noted a duplication of efforts, service gaps, a lack of competition in procurement, and other problems with the city’s anti-gang strategy and related human services. Rather than giving grants to several individual organizations for separate projects, the city now funds the FamilySource Program, described in the

¹⁵Detroit officials noted that while this was true in the past, a city restructuring process in the 2010 through 2011 CDBG program year removed the CDBG funding process from the local budget process.

Selection of Subrecipients

RFP as “...an infrastructure for delivering coordinated, outcome-driven services to the most vulnerable city residents.”¹⁶ Los Angeles officials stated that this shift resulted in a denial of renewal funding for some organizations that were not connected to the city’s new continuum of care.

As discussed above, many entitlement communities also awarded funds to subrecipients. In choosing which organizations to fund, some entitlement communities told us that they tended to fund the same subrecipients annually; this was seemingly due in large part to capacity considerations. An official in San Francisco stated that, for several years, the city’s pool of subrecipients had included a group of strong performers that received funding annually. At least half of the officials we interviewed reported that they considered applicants’ capacity to effectively carry out program activities and meet the administrative requirements that accompanied CDBG funding. Several communities considered past performance in evaluating applicants, thus tending to give an advantage to incumbent organizations. Officials in Los Angeles and San Francisco noted that smaller organizations with limited administrative infrastructure might find it challenging to meet CDBG application and administrative requirements.

Officials told us that new organizations were able to obtain funding in some communities. For instance, officials in Bismarck, San Francisco, and six other communities specifically mentioned that they encouraged new applicants to apply or that they funded a small number of new organizations in addition to some repeat subrecipients. San Francisco officials stated that they encouraged smaller organizations to coordinate with other providers or to find a fiscal agent who could focus on administration of the funds, allowing the groups to focus on service delivery.

¹⁶The city established 21 FamilySource Centers to assist and support residents in the city’s areas of greatest need. According to the city’s Web site, each center offers an array of educational, family, child, and youth services onsite or nearby through referrals.

Entitlement Communities Sought Public Input and Communicated about CDBG Funding through Methods such as Public Hearings, Citizen Advisory Committees, and the Internet

All of the entitlement communities in our sample reported that they held at least two public hearings annually and some used citizen advisory committees, surveys, and other outreach methods to involve and inform the public about their distribution of CDBG funds. As previously discussed, all entitlement communities must have a citizen participation plan. As part of the citizen participation requirements, they must hold at least two annual public hearings. These hearings are intended to provide opportunities for citizens to voice concerns about how CDBG funds are distributed and help ensure that the process is transparent, among other purposes.

Several of the entitlement community representatives with whom we spoke told us that attendance at public hearings generally was low. For instance, the Detroit administrator reported that only five or six people attended the public hearings. The CDBG administrator in Gloucester Township stated that the public hearings were poorly attended and no one questioned how the township spent its CDBG funds. This official equated a lack of comments or complaints to a lack of interest in the township's funding process and local priorities and stated that it may be due in part to the small amount of funding available. Officials from Los Angeles and Dane County stated that attendance at hearings varied based on factors such as funding availability and the relevance and timeliness of the agenda items for local residents and community groups. In particular, a Dane County official noted that attendance was high for public meetings following recent flooding, when the county had a combination of CDBG disaster assistance funding and state funding available to assist flood victims.

Additional Steps Taken to Communicate about the Program and Local Priorities

Some entitlement community representatives with whom we spoke told us that they took additional measures to involve local residents in the CDBG process and ensure transparency (see table 1). For example, several entitlement communities in our sample reported holding public meetings in addition to the two required public hearings to provide more opportunities for public involvement. For instance, Houston officials stated that they hosted a series of meetings with each major community and council district about proposed capital improvements, during which they addressed CDBG planning and processes for distributing funds. Los Angeles County officials stated that, for the unincorporated areas, they conducted five community meetings annually throughout the county and held them in the evenings so that residents would be more likely to attend. They reported that participation was higher using this method than when they used to hold just the two required public hearings.

Table 1: Methods in Addition to Required Public Hearings That Entitlement Communities in Our Sample Used for Communicating with the Public

Entitlement community	Additional public meetings	Citizen advisory committee	Survey
Baltimore, Md.			
Bismarck, N.Dak.			√
Chicago, Ill.		√	√
Cleveland, Ohio			√
Dane County, Wis.	√	√	√
Deltona, Fla.		√	√
Detroit, Mich.		√	
Dover, Del.	√	√	√
Gloucester Township, N.J.			
Greenville County, S.C.	√	√	
Gresham, Ore.	√	√	√
Houston, Tex.	√	√	√
Lincoln Park, Mich.	√	√	
Los Angeles County, Calif.	√		√
Los Angeles, Calif.	√	√	√
New York, N.Y.			
Philadelphia, Pa.	√		
San Francisco, Calif.	√	√	√
Sarasota, Fla.	√	√	
South Gate, Calif.	√	√	√

Source: GAO analysis of information provided by entitlement communities.

Note: This table is not all-inclusive. Many entitlement communities used other methods to engage the public. For example, New York and Cleveland worked closely with community boards and community development organizations to obtain input on neighborhood priorities, and Bismarck placed solicited suggestions using an advertisement in the newspaper, which resulted in more suggestions than the city would typically receive at public hearings.

More than half of the entitlement communities with which we met had some form of citizen advisory committee to solicit and provide citizen input on local priorities. The committees typically comprised local residents who volunteered or were nominated or appointed by CDBG administrative staff, the mayor or other government executive, local council members, or community organizations. Because these committees often comprised representatives from a variety of business sectors and neighborhoods, they could provide a more knowledgeable perspective on the needs and circumstances of different communities and applicants than

CDBG administrative staff alone could provide. A few of the committees also included one or more representatives of local government, such as the city council. Some communities also had the committees review CDBG applications and either recommend specific projects for funding or comment on proposed recommendations. For example, the Chicago Community Development Advisory Committee's three subcommittees reviewed and commented on program criteria, reviewed subrecipient proposals, and made funding recommendations in collaboration with city staff. In San Francisco, the Citizens Committee on Community Development could comment on the CDBG-administering office's initial recommendations before they went to the mayor and board of supervisors. Similarly, after an initial eligibility screening by city staff, the Citizen Advisory Committee in South Gate, California, reviewed and scored applications (based in part on applicants' oral presentations to the committee) and passed on recommendations to the city council.

Several entitlement communities in our sample also used needs assessment surveys or similar mass communications to gather input on local priorities. For instance, Dane County, Wisconsin, surveyed 1,500 county residents on its most recent consolidated plan and achieved a response rate of more than 30 percent, which allowed the county to obtain meaningful information on residents' priorities. Cleveland CDBG officials stated that they found it most effective to reach out to community members where they gathered to discuss neighborhood issues. This included over 50 venues such as block club meetings, annual meetings of citizen organizations, and community festivals. At these events, staff members obtained citizen comments and used a short survey to capture citizen ideas. Officials in several other entitlement communities also reported using surveys to gain input on CDBG priorities, usually in connection with their consolidated or annual action plans. Similarly, a Chicago official stated that the city emailed more than 500 individuals and community-based organizations to inform them about a public hearing on unmet needs and community priorities.

Communication about the Application Process and Funding Decisions

Throughout the application process, the entitlement communities we interviewed used methods such as the Internet, mass mailings, publishing scoring systems, workshops, and letters to communicate funding availability, requirements, and results to applicants and the public. Many entitlement communities published information about CDBG funds on their Web sites, making it publicly available to anyone with an Internet connection. In addition, officials from a few of the entitlement communities reported that they sent mailings to large lists of past and potential applicants to notify them about funding availability. For example,

San Francisco officials told us that they sent a mailing to more than 900 community-based organizations about CDBG funding opportunities.

The majority of entitlement communities in our sample provided clear information regarding their evaluation processes for applications. In particular, over half of the communities spelled out specific evaluation criteria, often with points assigned to those criteria, and they published this information in their applications (or RFP) or application guidelines, which they frequently made available online. Others used a more informal rating system based on general adherence to stated local priorities, national eligibility, or capacity to carry out the proposed project.

Half of the entitlement communities in our sample also reported that they held workshops to explain the application process and answer questions. These workshops helped ensure that all applicants had the opportunity to receive consistent information about the funding process. Others provided technical assistance throughout the application process, or connected applicants with other organizations that could provide help. For example, the Dover administrator told us that the city's public notice of funding availability included a telephone number for technical assistance. The Dane County Web site had a question and answer page about the process and its CDBG administrator stated that she had connected a municipal applicant with someone from another town that recently had completed a similar project with CDBG funds.

Most of the entitlement community officials we interviewed told us that they sent notification letters to unsuccessful applicants at the end of the application process. Three entitlement communities in our sample—Bismarck, Dane County, and Detroit—made public a list of all applicants' funding results. The other communities published a list of funded projects or activities, typically in their action plans, which they made publicly available in hard copy, if not on the Web.¹⁷ In most cases, when entitlement communities published a list of funding recommendations in their draft action plans, the public had an opportunity to comment on or challenge those recommendations before they were finalized for submission to HUD. Officials from Detroit and Los Angeles also noted that they had a formal appeals process for unsuccessful applicants to contest funding results.

¹⁷The exception was Cleveland, which listed allocations to categories of activities but did not list funding for specific projects.

We spoke with nine representatives of community groups in Baltimore and Los Angeles, and most told us that, in general, they thought their localities' CDBG funding processes were transparent.¹⁸ However, a representative in Baltimore stated that organizations that had not previously received funding had more difficulty obtaining funding than incumbent organizations. The Baltimore CDBG official with whom we spoke corroborated this point in stating that newer applicants tended to be at a disadvantage when compared to those with already successful programs. In addition, a representative in Los Angeles noted that the city's process was more difficult to navigate for less sophisticated or well-connected organizations. Two community representatives said that they understood there were limited funds and that some proposals would not get funded. One nonprofit representative in Baltimore noted that the list of all awarded projects in the action plan illustrated the city's many competing needs and helped him appreciate the difficulty the city faced in choosing which organizations would receive funding.

States also Used Different Methods to Distribute Funds to Non-Entitlement Communities and Communicate with Recipients and the Public

States used program flexibility to distribute CDBG funds by varying combinations of three methods: competitive, open application, or formula, and are also required to describe methods in annual plans and consult with eligible non-entitlement community recipients in developing methods. Most states employed multiple distribution methods, with a majority using a combination of competitive and open application processes. The five states in our sample also used different processes to implement the three methods of distribution. According to non-entitlement community officials we interviewed, they generally found these processes to be transparent.¹⁹ To communicate methods of distribution and obtain applicant feedback, states in our sample generally used a combination of similar processes, including guidance and other documents, meetings, online resources, and intergovernmental organizations. States' use of these methods went beyond general requirements, such as public hearings, and the applicants we interviewed generally viewed states' efforts favorably.

¹⁸Baltimore and Los Angeles were two of the communities in which we conducted site visits.

¹⁹We conducted telephone interviews with officials from the following non-entitlement communities: Arizona—City of Coolidge and Town of Prescott Valley; Georgia—Town of Arabi and City of Smithville; Pennsylvania—City of Bradford and Lebanon County; South Dakota—City of Vermillion and City of Whitewood; and Virginia—Town of Blackstone and Greensville County.

States Primarily Distributed CDBG Funds to Non-Entitlement Communities through a Combination of Competitive, Open Application, or Formula Processes

Our review of all 50 states' annual action plans showed that states used program flexibility to implement a variety of methods to distribute funds, but most states used some combination of three methods: competitive, open application, or formula.

- States used competitive distribution methods to allocate funds to numerous types of CDBG-eligible activities, with awards determined by a variety of application criteria and evaluation methods. States' competitive processes typically included one standard application deadline and ranked all eligible applicants in determining awards.
- States also used the open application distribution method to fund a variety of eligible activities that met certain threshold criteria as long as funds were available. Generally, with this process, states either did not establish an application deadline or the application submission period extended over several months. States' open application processes sometimes rated projects, but did not necessarily rank them against each other.
- The formula distribution method used population and other factors to distribute CDBG funds to all eligible non-entitlement communities through a non-competitive process.

From our review of all 50 states' methods of distribution described in annual plans, we found that most states used a combination of the competitive and open application distribution methods to distribute funds to non-entitlement communities within defined CDBG-eligible categories, while a few states utilized a formula to distribute some funds.

Four of the five states in our sample also used more than one method of distribution, but combinations varied (see table 2). Based on our review of action plans and on our interviews with officials from the five states, each allocated the majority of their CDBG funds under one method—two used competitive processes, two formulas, and one an open application process—and four used another method for the remainder.²⁰ For example,

²⁰South Dakota uses a system to rate projects and rejects those that do not receive a certain rating, referring to the system as competitive in its plan (distributing all CDBG funds through this process less those set aside for administrative purposes). However, officials noted that they attempt to fund all applications that meet their stated criteria and they accept applications on a rolling basis, though funding amounts may be less than requested. While South Dakota does not officially refer to this process as an open application method, we classified it as such. Officials also noted, however, that projects are compared by rating, and lower-rated projects may receive less funding in the event that funds are not available for all applicants.

Arizona distributed 85 percent of CDBG funds to non-entitlement communities through a formula based on population and poverty rates, but distributed the remaining 15 percent through a competitive process.

Table 2: Summary of Methods of CDBG Distribution for Sampled States

Dollars in millions

State	Total fiscal year 2009 CDBG funding	Methods of distribution used ^a
Arizona	\$12.1	Formula (85%) and competitive (15%) ^b
Georgia	39.9	Competitive (74%) and open application (26%)
Pennsylvania	46.6	Formula (87%) and competitive (13%)
South Dakota	6.6	Open application (100%)
Virginia	19.6	Competitive (89%) and open application (11%) ^c

Source: GAO analysis of information provided by states.

^aProportions do not include amounts set aside for state use for program administration, technical support, or other uses allowed by CDBG regulations. Proportions only relate to funds directly provided to non-entitlement communities in each state.

^bIn addition to the 3 percent of CDBG funds that Arizona utilizes for administration and technical support, Arizona also sets aside 10 percent of total funds for colonias, federally designated low-income communities near the Mexican border. The state distributes funds for colonias through a competitive process.

^cVirginia's proportion of funds distributed through competitive and open application methods varies from year to year and typically includes a larger proportion of open application funding than in fiscal year 2009. Funds set aside for some open application funding streams can be shifted to the competitive process if application requests are less than initial allocations.

Application Process

Although states used different methods of distribution, all the states in our sample employed an application process by which units of local government applied for funding for each project. State officials reviewed applications to ensure projects were CDBG-eligible and met one of the program's three national objectives. States also conducted additional monitoring to ensure projects matched application descriptions, including on-site reviews. For example, Georgia's plan requires officials to conduct on-site visits during at least three stages of each CDBG project—prior to approving applications to ensure applications are accurate, prior to starting awarded projects to conduct a capacity assessment and review compliance requirements, and at least once after project work has been started to ensure continued compliance.

The four states using competitive processes demonstrated similarities in applicant criteria and rating systems. Three of the four states that used competitive processes allowed all non-entitlement communities to apply for funds and used a point-based scoring system to evaluate applicants. For example, Georgia's CDBG funds could be awarded to all eligible units of local government. Its competitive application process rated and ranked all applicants on a 500-point scale across nine different factors, such as demographics need, impact, and leverage of other resources. All four states used evaluation criteria that included benefits to low-income individuals, capacity to execute projects, and potential impact.

When using open application or formula-based processes, states tended to vary more with respect to criteria used to assess applications or distribute awards. All three states that used an open application method to distribute some funds varied in some of the criteria, beyond meeting national objectives, they used to evaluate and approve projects. For example, South Dakota factored in leveraging from other funding sources and maximization of local resources to evaluate all projects, while Virginia used varying criteria across five separate open application programs that funded different categories of projects. Furthermore, the two states that mostly used a formula to distribute their program funds factored population in their calculations. Arizona also considered a poverty rate indicator and allowed recipients to decide by region whether to receive funding every year or to alternate funding with neighboring communities for up to 4 years in order to apply funds to higher-cost projects. Pennsylvania's formula factored in the level of local government receiving funds, and provided varying base funding amounts to counties, cities, and other types of municipalities before factoring in population.

Use of State and Local Priorities to Review Projects

In all five states we reviewed, the priorities states outlined in their action plans played a role in the evaluation and approval of CDBG projects across all methods of distribution. States used priorities to limit categories of eligible projects beyond broader national objectives, or to more specifically incorporate priorities as scoring components in some competitive distribution processes. For example, Arizona limited its formula grants, which represent 85 percent of its non-entitlement community CDBG allocation, to housing or community development projects, and also uses state priorities to limit activities funded by competitive grants. Two of the four states that used multiple methods of distribution also used priorities to segment eligible project categories by funding method. Virginia created priority categories, with separate applications and funding pools. For instance, its open application funded programs included community development, planning, and urgent needs,

and its competitive grant priorities included housing and infrastructure projects.

While non-entitlement community officials we interviewed in these states generally noted significant flexibility in selecting CDBG-eligible projects, state priorities for CDBG funds were a consideration in their selection of projects to present for funding. Local representatives in two states noted that their knowledge of state priorities and past experience with their states' CDBG distribution processes significantly influenced the types of projects for which they submitted funding applications. For example, most non-entitlement communities in South Dakota used CDBG funds for water and sewer projects, which were identified as a highest-need priority by state officials and difficult to fund from other available sources.

States have flexibility in setting funding priorities, but three states noted that CDBG-required consultation with non-entitlement communities and local hearings were factors in developing funding priorities and methods of distribution. For example, South Dakota officials attributed their prioritization of water and sewer projects as a response to local feedback. States must document these needs assessment processes for HUD's review, which all officials confirmed occurs.²¹ Two of the states required recipient communities to develop a formal plan based on their local needs assessments. For instance, Georgia requires non-entitlement community plans to outline needs in areas such as housing, infrastructure, and quality of life. Three states conducted additional meetings beyond the one required public hearing. For example, Arizona officials conducted regional meetings in each of their Councils of Government to solicit community input. Each of our five sample states used a body similar to many entitlement communities' citizen advisory committees in the needs assessment process, though these groups varied in format. For example, Virginia's Planning District Commissions communicated with non-entitlement communities in their areas to identify needs and develop regional CDBG funding priorities. The state then used these priorities as part of the scoring process for competitive fund pools and also as evaluation criteria for open application grants.

Other governing stakeholders also factored into state priorities and methods of distribution. According to state officials, Pennsylvania, for

²¹We discuss HUD's review of methods of distribution in more detail in the next section of this report.

example, requires new legislation to make any changes to its formula distribution process, which officials noted would be very difficult to revise and has remained in place since 1984. In South Dakota, the governor's office makes final approvals of all CDBG projects funded, after reviewing the recommendations of program officials. All states utilized one agency to lead administrative efforts in the CDBG distribution process, as required by program regulations, but each state also involved additional government offices and/or legislative bodies in the overall decision-making process.

Use of Subrecipients

Unlike entitlement communities, officials in sample states generally noted that most of their non-entitlement communities rarely used nonprofit organizations and other subrecipients to execute CDBG-funded projects in their local communities. Since all funds flow directly to units of local government, these entities must contract with any subrecipient through a separate agreement. Two of the states in our sample indicated their CDBG programs most commonly funded infrastructure projects, and noted that local government agencies typically executed these projects. However, officials from three of our sample states noted that some of their non-entitlement communities used subrecipients. For instance, Georgia officials noted that they encouraged non-entitlement communities to use subrecipients when they possessed better capacity for a given project. Additionally, South Dakota officials noted that they have a process in place to review and approve all subrecipients used by non-entitlement communities.

States Used Several Feedback Methods to Communicate Methods of Distribution and Provide Feedback to Non-Entitlement Communities and the Public

All five states in our sample noted that they communicated their methods of distribution to non-entitlement communities and the public through their required annual plans. States also made stakeholders aware of distribution methods in several other ways—for example, through additional publications, workshops, online support systems, and intergovernmental organizations (see table 3). Three states published additional documents focused specifically on the CDBG program that supplemented their annual and consolidated plans. For example, Virginia's annual CDBG program design document provided details on program changes and eligible communities, and other information beyond basic plan requirements. Two states held workshops outlining application procedures and methods of distribution. For instance, Georgia's annual applicant workshop informed local government representatives and other interested parties of CDBG application procedures, and allowed participants to ask questions and share information. Georgia also provided applicants and citizens with an online customer service management

system that addressed questions on methods of distribution. Three states worked with intergovernmental organizations (regional bodies that represent multiple local governments) to communicate methods of distribution to non-entitlement communities. For instance, Arizona’s Councils of Government provided assistance with the application process and developed funding cycles for distribution of formula grants. Non-entitlement community officials we interviewed in all five states noted that their states’ distribution methods generally were transparent and communicated sufficiently.

Table 3: Summary of Sample State Communication Practices on Methods of Distribution to Non-Entitlement Community CDBG Applicants and the Public

State	Communication methods ^a
Arizona	CDBG application handbook document (posted online), regional bodies that represent local governments (Councils of Government)
Georgia	CDBG application manual document (posted online), applicant workshop, online customer service management system
Pennsylvania	CDBG program guidelines document (posted online) and conferences
South Dakota	Regional bodies that represent local governments (Councils of Government)
Virginia	Additional CDBG program design document (posted online), applicant workshops, regional bodies that represent local governments (Planning District Commissions)

Source: GAO analysis of information provided by states.

^a24 CFR 91.320 requires all states to provide information on their methods of CDBG fund distribution to non-entitlement communities in annual plans. Communication methods noted indicate additional efforts beyond required annual plans.

Sample states also used several communication methods to provide feedback to applicants on funding decisions, application deficiencies, and other CDBG-related information (see table 4). Each state provided letters or other documentation to applicants to inform them about funding decisions and amounts, follow-up procedures, and other relevant information. Three states also posted application information online. For example, Virginia’s CDBG funding press release is available online, and contains details on all applicants that received an award through their competitive process, including amounts and projects funded. States with a competitive process to distribute some CDBG funds used letters and online feedback to convey decisions for both funded and denied applicants, but generally did not make public details on unfunded applicants. For example, Georgia sends denied applicants a detailed letter containing their score, rank, and information on why the application lost points for various criteria and identified ways they could improve their application for the next funding cycle. Non-entitlement community

officials we interviewed in Georgia indicated that they found this process useful and were able to improve on declined applications to gain funding awards in subsequent years. States that used open application and formula processes to distribute CDBG funds also provided applicant feedback. The states we interviewed also provided some technical support as part of their feedback process, with all five states willing to conduct meetings or telephone conversations with non-entitlement communities upon request.

Table 4: Summary of Sample State Communication Methods for Feedback on Funding Decisions, Applications, and Other Program Details to Non-Entitlement Community CDBG Applicants and the Public

State	Communication methods
Arizona	Online posting of projects funded (public), notification letters (all applicants), verbal technical support (upon request)
Georgia	Online posting of all funding decisions (not public, applicant review only), notification letters with ranking and scoring details (all unfunded projects with funded projects upon request), verbal technical support (upon request)
Pennsylvania	Notification letters (all applicants), verbal technical support (upon request and at conferences)
South Dakota	Press release on funded projects (no online posting), notification letters (all applicants), applicant rating details (not public, upon request), verbal technical support (upon request)
Virginia	Online posting of projects funded (public), notification letters (all applicants), applicant ranking and scoring details (not public, upon request), verbal technical support (upon request)

Source: GAO analysis of information provided by states.

HUD Staff and Monitoring Results Reported Very Few Findings or Concerns Related to Methods of Distribution

HUD staff from the 17 field offices that monitor the entitlement communities and states in our sample reported very few findings or concerns related to methods of distribution. HUD requires states to describe their methods of distribution in their annual action plans and HUD has authority to monitor methods of distribution as part of its audit and review responsibilities. In performing its reviews, HUD may check to determine whether the state has distributed its funds in conformance with the method of distribution described in its annual action plan. Entitlement communities have no requirement to describe methods of distribution. Instead, entitlement communities must provide a description of the activities they will undertake during the next year to address their priority needs and objectives.

As we previously reported and we recently verified with several HUD field office staff, HUD uses a risk-based strategy to monitor CDBG recipients' compliance with the program rules because it has limited monitoring

resources.²² Field office staff rate all recipients on applicable factors under four categories: financial, management, satisfaction, and services and focus on high-risk recipients to review.²³ HUD considers recipients that receive a score of 51 or greater to be high-risk. According to many field office staff with whom we spoke, they reported very few findings or concerns related to methods of distribution from their monitoring site visits for the CDBG program over the last few years. Our review of HUD's monitoring reports confirmed that HUD staff reported very few findings or concerns related to methods of distribution. This is due in part to program design—states and entitlement communities decide which activities to fund and how to distribute funds. Because HUD monitors the program using risk analysis and because of the flexibility granted to entitlement communities and states to distribute funds, issues made about the choice of methods of distribution are not rated high-risk.

HUD's monitoring tends to focus on higher-risk areas such as ensuring funds are spent on eligible activities that meet one of the national objectives. For example, in April 2010 the Portland field office completed an on-site monitoring review of the City of Gresham's CDBG program. According to the field office staff, the City of Gresham was deemed high-risk because it had not been reviewed since 2005 and the city had engaged in new activities since that time. According to the on-site monitoring letter summarizing the results of the review, HUD staff assessed three areas of the city's program, including compliance with program eligibility and national objectives. HUD staff found that all of the CDBG activities were eligible for assistance, although one of seven projects they reviewed needed to be recategorized in HUD's management information system. Furthermore, because states are required to describe their methods of distribution, many HUD staff told us they also monitored states' conformance with the methods of distribution described in their action plans. For instance, in March 2008 the Atlanta field office reviewed the

²²GAO, *Community Development Block Grants: Program Offers Recipients Flexibility but Oversight Can Be Improved*, GAO-06-732 (Washington, D.C.: July 28, 2006).

²³The financial factors include the size of the grant, how timely the recipient has been in expending its grant funds, and the extent to which the recipient has received program income. The management factors include the complexity of the activities that a recipient undertakes, the timeliness and accuracy of the recipient's submissions, the recipient's staff capacity, and how long it has been since HUD last monitored the recipient on-site. The satisfaction factors include whether the recipient has received citizen complaints and how responsive the recipient has been to any citizen complaints. The service factors are whether the recipient has met the program's national objectives and complied with the limitation on public service expenditures.

rating and ranking of applications for Georgia's regular competition for CDBG awards and determined that the state's system for reviewing applications had remained basically the same for at least 10 years. Furthermore, staff in one field office explained that for the small portion of funds distributed competitively by the state they oversee, they reviewed RFP and award processes to ensure that they mirrored the state's planned approach. Staff in two other field offices noted that they looked at a sample of applications the state received to see whether the state rated and ranked them in accordance with its stated method of distribution.

In addition to risk-based monitoring (on-site reviews), HUD staff conduct annual reviews of states' and entitlement communities' required annual performance reports. Many field office staff with whom we spoke said they compared the actual activities to those proposed in the annual action plans to ensure that entitlement communities and states were complying with the goals and objectives identified in their plans. For instance, the Los Angeles field office reviewed the Los Angeles County 2008 program year performance report and noted that the county reported activities and accomplishments that related back to strategies described in its consolidated plan. Also, the San Francisco field office reviewed Arizona's 2007 program year performance report and concluded that the state undertook activities that addressed the state's priority needs identified in its consolidated plan.

In general, HUD field staff noted that the few problems identified during their reviews were administrative in nature and easily resolved. For instance, HUD staff at several field offices noted that a common problem with the consolidated and action plans, although not related to methods of distribution, related to the certifications that grantees had to submit to HUD. Grantees sometimes submitted outdated certification forms, failed to submit a renewal certification to replace the expired form on file, or submitted a certification without a signature. HUD staff also noted a few cases relating to requirements for states to describe their methods of distribution. In one instance, the state had changed the amount of funding dedicated to a certain type of project but did not revise its method of distribution description to reflect this change. In two other instances, HUD staff recommended that their respective states include sufficient information in their methods of distribution to meet HUD's requirement

relating to descriptions of all selection criteria.²⁴ Officials from one state told us that they described the criteria and rating system they would use to evaluate applications in their RFP package but the description in their program design was not as detailed. Although this information was disclosed elsewhere, they explained that they began providing more details about their criteria in the method of distribution about 2 years ago. In the other instance, HUD staff told us that the state resolved the issue by referring HUD staff to additional information the state included in its separate method of distribution document.

HUD also requires CDBG grantees to develop and follow a detailed plan that provides for, and encourages, citizen participation. The plan must provide citizens with reasonable and timely access to local meetings and provide for public hearings to obtain citizen views on proposals and answer their questions. Several of the HUD staff with whom we spoke described how they annually reviewed the citizen participation requirement. For instance, staff in one field office stated that they reviewed the citizen participation processes of the entitlement communities they oversee to determine whether the process was open and the community was reaching out to find eligible projects that met local needs. While processes varied by entitlement communities, HUD accepted variation so long as the citizen participation plan described how the process worked and citizens had an opportunity to participate. According to most field office staff with whom we spoke, grantees generally met the citizen participation requirement. For example, staff in one field office told us that one of the entitlement communities they oversee holds hearings in identified neighborhoods each year to obtain public input for its advisory committee.

Throughout the citizen participation process, citizens have an opportunity to provide input on the consolidated planning process as well as discuss their concerns about the city or state's distribution process. However, HUD field staff told us that citizens rarely used these venues to discuss issues related to how a city or state distributed its funds. Most of the

²⁴On October 24, 2006, HUD issued Notice CPD-06-11, *Guidance on Preparation of the State CDBG Method of Distribution in Accordance with the Final Consolidated Plan Rule dated February 9, 2006*, to aid states in the preparation of an acceptable method of distribution description. The final rule states that the method of distribution must provide sufficient information so that units of general local government will be able to prepare responsive applications. That is, the method of distribution shall contain a description of all criteria used to select applications from local governments for CDBG funding, including the relative importance of the criteria.

discussions at these hearings focused on areas of need or on projects that did not receive funding. Citizens also can contact their local HUD office to express concerns about the CDBG program. Overall, several of the field office staff with whom we spoke stated that they had received a few complaints but none pertained to methods of distribution. Several field office staff told us that HUD investigates complaints they receive to ensure that grant recipients are in compliance with the program requirements. Local non-entitlement community officials with whom we spoke confirmed that they have not contacted HUD to express concerns about the states' methods of distribution. The lack of concerns raised about methods of distribution through these venues corroborates HUD officials' findings that methods of distribution are not a high-risk area for compliance with program requirements.

Agency Comments

We provided HUD with a draft of this report for their review and comment. HUD provided technical comments, which we incorporated into the report, as appropriate.

We are sending copies of this report to the Secretary of the Department of Housing and Urban Development and other interested congressional committees. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are in appendix III.

Sincerely yours,



William B. Shear
Director, Financial Markets and
Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) identify and describe examples of the various methods by which entitlement communities use and distribute their CDBG funds to individual projects within their jurisdiction; (2) identify and describe examples of the various methods by which states distribute CDBG funds to non-entitlement communities; and (3) describe and examine HUD's role in overseeing the methods by which entitlement communities and states distribute their CDBG funds.

To identify and describe the methods by which entitlement communities use and distribute their Community Development Block Grant (CDBG) funds to individual projects within their jurisdictions, we conducted a literature review and examined reports on the CDBG program and a report on managing CDBG grantees.¹ We also interviewed CDBG experts and representatives of several national organizations that represent entitlement cities and counties and potential CDBG subrecipients to gather general information on how entitlement communities distribute their CDBG funds. These organizations included the National League of Cities, the National Association of Housing and Redevelopment Officials, the National Alliance of Community Economic Development Associations, the National Association for County, Community and Economic Development, and the National Community Development Association.

We selected a sample of 20 entitlement communities for detailed interviews (see fig. 2). Ten of these communities (nine cities and one county) were the largest in terms of fiscal year 2010 CDBG allocations from the Department of Housing and Urban Development (HUD). To select the other 10 entitlement communities, we divided the list of 1,153 remaining entitlement communities into cities and counties. Within the city group, we divided the communities into four regions of the country (Northeast, Midwest/Central, South, and West). We then randomly drew 2 entitlement cities from each of the 4 regions and 2 counties from the overall list of counties—for a total sample of 17 entitlement cities and 3 entitlement counties, which matched the national distribution of cities to counties (approximately 85 percent and 15 percent respectively). Since we selected entitlement communities for comparative and illustrative purposes, results from this nongeneralizable sample cannot be used to make inferences about all entitlement communities nationwide. We

¹U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Managing Subrecipients of CDBG Grantees* (Washington, D.C.: December 2005).

interviewed the CDBG administrators from each of these entitlement communities to determine how they distributed their funds and how they shared this information with the public. We visited Baltimore, Chicago, Los Angeles, Los Angeles County, New York, San Francisco, and South Gate. We conducted the other interviews by telephone. We also reviewed these communities' annual action plans and other relevant documentation. Lastly, we judgmentally selected three communities from the communities we visited, taking into account geographic and program diversity, and interviewed stakeholders involved in the CDBG process, such as community organizations and members of citizen advisory committees. In Baltimore and Los Angeles, we interviewed recent and current nonprofit CDBG subrecipients to discuss their understanding of their cities' processes for distributing funds, as well as the transparency of those processes. In Chicago, we interviewed the executive members of the Community Development Advisory Committee, which comprises community members who provide input on CDBG funding priorities and recommendations to discuss their role in Chicago's funding process and their views about how the process works.

To identify and describe examples of the various methods by which states distribute CDBG funds to non-entitlement communities, we reviewed the most recently available annual action plans covering 2008 through 2010 (required and reviewed by HUD) for all 50 states to identify the types of methods of distribution. From this review, we judgmentally selected five states that represented a variety of distribution methods to conduct interviews (see fig. 2).² In selecting states, we considered the distribution methods, geographic dispersion (at least one state from the Northeast, Midwest/Central, South, and West regions), funding amount, and states and regions represented by the 20 entitlement communities we reviewed. We interviewed the CDBG administrators for each state to obtain an understanding of their methods of distribution and the level of transparency in their process and reviewed relevant documentation. We also interviewed officials from two non-entitlement communities from each sample state to obtain their views on their respective state's CDBG

²We visited the state of Virginia in person and conducted telephone interviews with representatives of the remaining four states.

distribution process and how information is communicated to the public.³ Finally, we interviewed a representative from the Council of State Community Development Agencies to obtain general information on how its members distribute their CDBG funds.

³We conducted telephone interviews with officials from the following non-entitlement communities: Arizona—City of Coolidge and Town of Prescott Valley; Georgia—Town of Arabi and City of Smithville; Pennsylvania—City of Bradford and Lebanon County; South Dakota—City of Vermillion and City of Whitewood; and Virginia—Town of Blackstone and Greensville County.

Figure 2: Sampled Entitlement Communities and States



Source: GAO analysis; Art Explosion (images).

To describe and examine HUD’s role in overseeing the methods by which entitlement communities and states distribute their CDBG funds, we reviewed the relevant statutes, regulations, and HUD’s policies and procedures. In addition, we interviewed HUD staff from the 17 field offices that oversee our sampled entitlement communities and states to gain an understanding of their policies and practices relating to oversight of methods of distribution and to determine how they ensure that states complied with the requirement to publish their distribution methods. To confirm our understanding of HUD’s monitoring efforts and annual review

of the performance and evaluation reports, we reviewed HUD documents summarizing the results of their reviews.

We conducted this performance audit from November 2009 to September 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Sampled Entitlement Communities' Distribution Methods

We interviewed the Community Development Block Grant (CDBG) administrators from each of 20 entitlement communities in our sample to determine how they distributed their funds (see table 5). We also reviewed these communities' annual action plans and other relevant documentation. For more information about how we selected these communities, see appendix I.

Table 5: Methods of Distributing CDBG Funds for Sampled Entitlement Communities

Entitlement community	Fiscal year 2010 CDBG allocation	Method(s) of distributing funds
New York, N.Y.	\$195,203,459	New York directed the largest portion of its funds to housing preservation activities, in addition to neighborhood economic development, public services, and other eligible activities. New York published anticipated CDBG spending in its action plan and then allocated funding to various city agencies through the annual city budget process. Approximately 20 city agencies received funds, some of which they used to carry out activities internally and some of which they awarded to subrecipients. In the latter cases, agencies used a competitive process and established staff review panels that evaluated applications. The city contract office reviewed all contracts proposed for CDBG funding. In the case of neighborhood economic development, the city gave funds to the local development corporations with responsibility for the retail strips in specific areas.
Chicago, Ill.	\$90,582,706	Chicago directed its funds toward housing development, public services, youth services, workforce activities, and other eligible activities. As part of the city budget process, the budget office (the CDBG administrative agency) worked with other city departments to suggest CDBG funding levels for various programs. Overall, funds were budgeted both for internal use by city departments and for grants to subrecipient organizations. To determine subrecipient awards, the budget office administered a competitive online application process. Staff from the applicable departments reviewed applications with assistance from a community development advisory committee and forwarded funding recommendations to the budget office. Following a series of public hearings, the mayor submitted a proposed city budget to the city council; the budget included the CDBG funding recommendations. After more public hearings, the city council approved the overall budget.
Los Angeles, Calif.	\$77,983,283	Los Angeles awarded most of its funds to nonprofits for public services, economic development, housing activities, and neighborhood improvements through a competitive process. The relevant city departments ran an RFP process for most of the funds, but for homelessness services and economic development activities, they contracted with two large quasi-governmental agencies that acted as umbrella organizations to administer the funds. The departments and agencies established panels of experts and staff to rate the applications. The mayor and city council also reviewed recommended projects and could provide input, and the city council issued the final approval.

**Appendix II: Sampled Entitlement
Communities' Distribution Methods**

Entitlement community	Fiscal year 2010 CDBG allocation	Method(s) of distributing funds
Philadelphia, Pa.	\$55,325,903	Philadelphia directed nearly all of its fiscal year 2010 allocation to housing and public service activities (housing preservation, affordable housing production, and housing counseling), as well as to neighborhood economic development activities. The city selected contractors to perform housing preservation work through a competitive process and then accepted applications from homeowners on a rolling, year-round basis. It distributed the remainder of its funds through a competitive process. For competitive funds, an interdepartmental team of at least three people—which varied depending on the proposed activities—reviewed each application and made funding recommendations to the lead administrative agency. The city council had final approval authority for the overall CDBG budget, but not for specific award amounts.
Detroit, Mich.	\$40,142,357	Detroit awarded funds for public services, home repair, development, and public facility rehabilitation activities, primarily through a competitive process. The city made funding decisions concurrent with the mayor's budget process. For proposals related to bricks and mortar projects, the city planning commission, a support agency of the city council, reviewed applications and made funding recommendations. A citizen review committee advised the city planning commission on these recommendations and also reviewed and made funding recommendations on proposals for the Neighborhood Opportunity Fund—neighborhood-based projects that were short-term in nature. All of these recommendations went into the mayor's proposed budget and were presented to the city council, which could provide input on the recommendations and had final approval of the overall budget.
Houston, Tex.	\$32,769,402	Houston directed its 2010 allocation to affordable housing (primarily single family home repair), economic development, public improvements and infrastructure, and public services. For home repair projects, the city's CDBG administrative department accepted homeowner applications on a first-come, first-served basis and bid out the work to pre-certified contractors. A city-established nonprofit made economic development loans to small businesses and individuals through a revolving loan account on a first-come, first-served basis. For public improvements and infrastructure, the CDBG administrative department accepted proposals year-round from city agencies and private organizations. For public service funds, the CDBG administrative department awarded some grants through an open-ended application process and subcontracted with a large nonprofit to manage a competitive 60-day RFP process for juvenile delinquency prevention, child care, and emergency shelter grant programming. The city council had final approval authority for all proposed funding amounts in excess of \$50,000.
Los Angeles County, Calif.	\$32,219,273	Los Angeles County used the HUD formula to allocate its funds among 47 participating cities and five unincorporated districts. The county allowed each city to determine how funds would be utilized to meet local needs and priorities. The cities used various processes, which could include competition, to distribute their funds. However, the county provided oversight over the cities' use of funds by ensuring that proposed projects were eligible and met a national objective, in addition to conducting ongoing programmatic and financial monitoring. The county played a more direct role in distribution of funds in the unincorporated areas. It worked with the five district offices to identify needs and distribute funds for specific projects in the unincorporated areas. The supervisors for each of the five districts had the final approval authority for funding decisions in those areas.

**Appendix II: Sampled Entitlement
Communities' Distribution Methods**

Entitlement community	Fiscal year 2010 CDBG allocation	Method(s) of distributing funds
Cleveland, Ohio	\$25,908,893	Cleveland's CDBG administrative department awarded funds for housing rehabilitation and storefront renovation on a first-come, first-served basis and allocated some funding directly to other city departments to carry out housing demolition and build-up, landbank maintenance, and fair housing services, among other activities. The city awarded funds to subrecipients for social services, community development corporation activities, block club activities, and a housing trust fund through a one-time competitive process, and it funded neighborhood development activities on an ongoing basis. The city's CDBG administering department served as the primary review team for most funding applications. For social services and community development corporation awards, the department invited city council staff to participate in the review process. The city council had final approval of all funding allocations.
Baltimore, Md.	\$25,179,425	Baltimore awarded its fiscal year 2010 funds to city agencies and subrecipients for housing, public services, administration and planning, neighborhood improvements (infrastructure), and economic development using a competitive process. Staff of the city's CDBG administrative department conducted an initial screening of proposals for eligibility and compiled a list of eligible projects for a review committee, which comprised departmental executive staff. The review committee selected a list of finalists and sent it to the mayor's office for review and potential revision. The city held a public hearing on the proposed funding awards, which often resulted in reconsideration requests that the review committee considered. The commissioner of the CDBG administrative department made the final decision on changes to the proposed awards.
San Francisco, Calif.	\$22,267,380	San Francisco used two competitive cycles to allocate the majority of its 2010 allocation. The city's housing office ran one competition for housing, public services, capital projects and improvements, and planning and capacity building, while the office of economic and workforce development ran another competition for those types of activities. The largest portion of the funds went to housing activities. The review process consisted of an initial review by the two CDBG administering departments, with subsequent review by a citizen committee, the city's board of supervisors, and the mayor's office. The board of supervisors had the final approval authority for funding awards.
Greenville County, S.C.	\$2,625,533	To administer its CDBG allocation, Greenville County contracted with a redevelopment authority, which used a formula to determine the funding allocations for five municipalities and a large unincorporated area. However, the redevelopment authority retained control over the distribution method for all of the funds. In both the municipalities and the unincorporated area, the redevelopment authority used a competitive process to award a portion of funds to subrecipients for public services, facility construction or renovation, infrastructure improvements, and other eligible activities, as well as to housing developers for activities such as housing construction or rehabilitation or assistance to first-time homebuyers. In the municipalities, the redevelopment authority board and staff scored the applications and made funding recommendations to the municipal managers for approval of the subrecipients. The redevelopment authority board had final approval of the municipal subrecipients. In the unincorporated area, redevelopment authority staff forwarded recommendations to the board's administration committee. Once that committee approved the recommendations, it sent them to the full board for final approval. The county council approved the annual action plan that included all of the funding recommendations. The redevelopment authority distributed all other CDBG funds (i.e., those that did not go to subrecipient organizations or housing developers) on a rolling basis. Overall, no more than 10 percent of the total allocation went to subrecipients.

**Appendix II: Sampled Entitlement
Communities' Distribution Methods**

Entitlement community	Fiscal year 2010 CDBG allocation	Method(s) of distributing funds
South Gate, Calif.	\$2,289,200	South Gate awarded a majority of its 2010 allocation to two city departments for park infrastructure improvements and code enforcement activities. While the departments submitted applications, the selection was based solely on the city's highest priority needs as identified in a series of public meetings and meetings with city officials from various departments. In addition, the city competitively awarded some funds to nonprofit organizations and the Police Department to carry out public service activities. For the competitive applications, following an initial eligibility screening by the city, a citizen advisory committee reviewed and scored each application, also considering presentations by each applicant, and made recommendations to the city council for its final approval.
Dane County, Wis.	\$1,236,378	Dane County directed its 2010 funds to government agencies and nonprofits for housing, public facilities, public services, disaster assistance, and economic development activities. With the exception of a commercial revolving loan program and disaster assistance funds, for which applicants could receive funds on a first-come, first-served basis, the county awarded all funds competitively. Following an initial eligibility screening by county staff, an application review team of the county's CDBG commission (composed of resident representatives of municipalities and county board supervisors) scored applications and interviewed each applicant. The application review team passed its preliminary recommendations to the full CDBG commission for input. The county incorporated these recommendations into a draft of the annual action plan. Following public review and input on the plan, the CDBG commission passed its final recommendations to the county board of supervisors and county executive for approval.
Gresham, Ore.	\$959,393	Gresham used a competitive process to award its CDBG funds to city departments and community based organizations for public services, economic development, public infrastructure and facilities, and housing. The review process entailed a basic eligibility screening by CDBG administrative staff, with subsequent detailed reviews and scoring by three advisory committees, including a community development and housing subcommittee, a financial review committee, and a technical review committee. The community development and housing subcommittee then heard oral presentations from all applicants at a public hearing, after which it could revise scores as necessary before passing on the recommendations to the city council (including the mayor) for final funding decisions.
Lincoln Park, Mich.	\$936,808	Lincoln Park directed most of its 2010 allocation to public infrastructure projects, such as streets and utilities. Based on the mayor and city council's review of Lincoln Park's capital needs and overall budgets, the city awarded these funds to the public services department, which conducted the work through its own personnel or via bids to private contractors. The city also spent a small portion of its funds on public service activities such as community policing and senior services, which it administered competitively. The CDBG administrative department and a community improvement commission reviewed the proposals and made funding recommendations to the mayor and city council. The city council members then individually submitted their recommendations to the administrative department for tabulation of final grant awards, for which the mayor and city council had approval authority.

**Appendix II: Sampled Entitlement
Communities' Distribution Methods**

Entitlement community	Fiscal year 2010 CDBG allocation	Method(s) of distributing funds
Sarasota, Fla.	\$607,958	Sarasota directed its 2010 allocation primarily to housing rehabilitation, public services (specifically, homeless services), and economic development activities in a designated neighborhood. The CDBG administrative department ran housing rehabilitation projects directly on a first-come, first-served basis. The city administered public service funds to a large subrecipient that, in turn, awarded funds to other organizations on a first-come, first-served basis. For activities in the targeted neighborhood, the city carried out some of the work itself and awarded funds to two nonprofits to solicit applications from other service organizations to conduct summer youth employment activities.
Deltona, Fla.	\$543,184	Deltona directed the majority of its 2009-2010 allocation to city departments to conduct storm water projects and improvements to public facilities. For housing rehabilitation activities, which used a small portion of the allocation, the city decided what to fund on a case-by-case basis, typically first-come, first-served. The city used a competitive process to allocate funds to subrecipients for public service activities. In addition to a written application, the city required applicants for these public service funds to make presentations about their projects to city officials.
Gloucester Township, N.J.	\$376,580	Gloucester Township awarded its 2010 funds to city departments and subrecipients for home improvement loans, public services, infrastructure, and other activities. Applicants typically submitted request letters, but there was no required format. The grants manager and other township staff reviewed applications, and then the mayor and council made final funding decisions based on overall township needs. The council adopted the final awards through a resolution.
Bismarck, N.Dak.	\$374,662	Bismarck directed the majority of its 2010 allocation to construction activities such as renovation of public facilities, affordable housing creation, and housing accessibility, as well as public service activities. Most of the grantees were nonprofit organizations, although the city and the housing authority carried out two large construction projects. A committee composed of the city administrator, the head of the CDBG administrative department, and the executive director of the United Way reviewed all applications and used consensus to select projects for funding.
Dover, Del.	\$296,526	Dover directed its 2010 allocation to housing rehabilitation and homeownership assistance and to other CDBG-eligible services provided by nonprofit subrecipients. The city used a competitive application process to distribute its CDBG funding. After a threshold review by administrative staff, a committee consisting of three council members and two private citizens appointed by the mayor reviewed the applications and submitted its funding recommendations to the administrative department. The city council then received a copy of the recommendations in the proposed annual action plan and provided final approval.

Source: HUD; GAO analysis of information provided by entitlement communities.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Kay Kuhlman, Assistant Director; Rudy Chatlos; Geoffrey King; Yola Lewis; Kristeen McLain; John McGrail; Lisa Reynolds; and Barbara Roesmann made key contributions to this report.

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