April 1999

COMMUNITY DEVELOPMENT

Weak Management Controls Compromise Integrity of Four HUD Grant Programs

GAO

Accountability ★ Integrity ★ Reliability

GAO

B-281322

April 27, 1999

The Honorable Wayne Allard
Chairman, Subcommittee on Housing
   and Transportation
Committee on Banking, Housing,
   and Urban Affairs
United States Senate

The Honorable Rick A. Lazio
Chairman, Subcommittee on Housing
   and Community Opportunity
Committee on Banking
   and Financial Services
House of Representatives

In response to a request by you as Chairman of the Subcommittee on Housing and Community
Opportunity, House Committee on Banking and Financial Services, and the former Chairman of
the Subcommittee on Housing Opportunity and Community Development, Senate Committee on
Banking, Housing, and Urban Affairs, this report discusses whether controls are in place to
ensure that block grant programs' objectives are being achieved and that funds are being
managed appropriately. In particular, the report discusses whether (1) the Department of
Housing and Urban Development's (HUD) on-site monitoring of grantees under the Grants
Management System is adequate and (2) the Integrated Disbursement and Information System
provides the data HUD needs to accurately assess grantees' performance.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no
further distribution of this report for 30 days after the date of this letter.

We are providing copies of this report to Senator Connie Mack, the Chairman of the
Subcommittee on Economic Policy, Senate Committee on Banking, Housing, and Urban Affairs;
the Honorable Andrew Cuomo, the Secretary of Housing and Urban Development; and other
interested parties. We will also make copies available to others upon request. Major
contributors to this report are listed in appendix II.

Judy A. England-Joseph
Director, Housing and Community
   Development Issues

Executive Summary

Purpose

About one-quarter of the Department of Housing and Urban Development's (HUD) budget—almost $6 billion in fiscal year 1998—is devoted to four formula block grant programs that support community development: the Community Development Block Grant Program, the Home Investment in Affordable Housing Program, the Emergency Shelter Grant Program, and the Housing Opportunities for Persons With AIDS Program. While each of these programs has a different purpose, they all provide federal funds to help grantees—primarily state and local governments—finance projects and services for local residents. In 1995, HUD revamped its approach to managing these formula block grants by requiring grantees to develop a consolidated plan that lays out how they will use all four programs. As part of its revamped approach, HUD changed its monitoring of grantees to reflect the collaborative relationship it was trying to establish with them. Under this approach, known as the Grants Management System, HUD developed the Integrated Disbursement and Information System so that grantees could enter information into a database that describes their planning and projects, draw federal funds, and inform the Department about how they are using those funds and what they are achieving with them.

Concerned about changes in HUD's approach to program monitoring, the former Chairman of the Subcommittee on Housing Opportunity and Community Development—now the Subcommittee on Housing and Transportation—Senate Committee on Banking, Housing, and Urban Affairs, and the Chairman of the Subcommittee on Housing and Community Opportunity, House Committee on Banking and Financial Services, asked GAO to assess whether controls are in place to ensure that the block grant programs' objectives are being achieved and that funds are being managed appropriately. In particular, GAO examined whether (1) HUD's on-site monitoring of grantees under the Grants Management System is adequate and (2) the Integrated Disbursement and Information System provides the data HUD needs to accurately assess grantees' performance.

Background

The Grants Management System and the Integrated Disbursement and Information System are administered by HUD's Office of Community Planning and Development through 42 field offices throughout the United States. The Grants Management System—which HUD developed to deemphasize compliance monitoring of grantees and to promote a more collaborative approach that includes up-front assistance and a reliance on grantees' monitoring systems—uses the Integrated Disbursement and

Information System as its chief monitoring tool. Allowed considerable independence in carrying out the Grants Management System, the field offices develop their own work plans, conduct their own evaluations of grantees to determine which need more oversight and assistance, set their own monitoring schedules, and determine the type and amount of technical assistance they provide to their grantees.

Results in Brief

While the Grants Management System provides a logical, structured approach to managing the four block grant programs, HUD's monitoring under the system—including on-site monitoring of grantees and the Integrated Disbursement and Information System—does not ensure that the programs' objectives are being met and that grantees are managing their funds appropriately. HUD considers its on-site monitoring of grantees essential, but GAO found this monitoring is inadequate. The five field offices GAO visited (accounting for about 20 percent of all block grant funds in fiscal year 1998, or $1.18 billion) conduct on-site monitoring infrequently because of a shift to a more collaborative relationship with the grantees and because of a lack of resources, according to the directors of the field offices. Furthermore, on-site monitoring seldom targets the grantees that receive the poorest evaluations from the field offices compared with other grantees, and this monitoring is not uniform or comprehensive because the field offices lack specific guidance. The reviews of some grantees conducted by GAO and others, especially HUD's Inspector General, have identified significant problems in grantees' finances and performance. And while such reviews are not generalizable to all block grant programs, these reviews, along with the breakdowns in monitoring, call into question the integrity of programs funded at nearly $6 billion in fiscal year 1998, including their safeguards against fraud, waste, and abuse. This report makes recommendations designed to improve the integrity of the block grant programs.

For its part, HUD's Integrated Disbursement and Information System does not provide the information the Department needs to accurately assess grantees' performance and thus does not compensate for these breakdowns in monitoring. Fraught with major design flaws, the information system makes the process for establishing and maintaining accounts difficult and provides ample opportunity for major problems with entering data, does not allow such problems to be corrected easily, cannot track the program income from the revolving funds that grantees establish, does not provide timely and accurate information, and has difficulty producing reports. GAO also determined that the security controls

for the information system are weak and therefore do not provide assurance that the system is safe from fraud and abuse. This report recommends modifying or replacing the Integrated Disbursement and Information System, whichever is more cost-effective, and taking other steps to improve system security.

Principal Findings

Monitoring Under the Grants Management System Does Not Ensure That the Programs' Objectives Are Being Met and That Grantees Are Managing Their Funds Appropriately

Although HUD's Grants Management System Policy Notebook states that on-site monitoring is an essential tool for determining whether program requirements are being met, it does not specify when on-site monitoring should be done. During fiscal year 1998, the five field offices GAO reviewed conducted visits to 33 grantees, or just 14 percent of their 228 grantees. Moreover, while HUD's annual comparative review of grantees' performance is intended to target the grantees most in need of attention, only 38 of the 85 grantees HUD had originally designated for on-site monitoring were determined to be among the lowest performing grantees, or those needing the most oversight or assistance. Of the 33 grantees that actually received on-site monitoring, only 15 were among the lowest performing. According to the directors of four of the five field offices, the level of on-site monitoring fell by 88 percent from 1990 through 1998 because of the shift to a more collaborative relationship with the grantees and a lack of staff resources to conduct on-site monitoring, combined with increased responsibilities for field office staff. Despite recognition of this problem, the Office of Community Planning and Development has not conducted a workforce analysis since 1996. Furthermore, the on-site monitoring that does occur is not uniform or comprehensive because the Policy Notebook does not specify the issues that should be covered during a visit. Another problem is the latitude granted field offices in evaluating grantees' performance. The Policy Notebook provides the individual field offices with considerable discretion in targeting grantees for review.

In visits to 11 grantees, GAO found significant problems that could have been detected with on-site monitoring. Some project files had no evidence that the grantees monitored the recipients of funds, such as nonprofit organizations, and in one instance, the grantee acknowledged that it had not monitored any of its recipients in the 1998 program year. Other files lacked documentation to support payments and to justify cost overruns, including one overrun of about $100,000. At one grantee, the nine project

files GAO reviewed lacked such key information as certifications that the recipients have low or moderate incomes, statements of work, and contracts, making determinations about the grantee's performance impossible. Similarly, in 11 reports since the implementation of the Grants Management System, HUD's Inspector General has found that grantees are not complying with financial and performance requirements and has questioned the expenditure of about $26 million. The Inspector General has also faulted HUD's monitoring of grantees. In some cases, the Inspector General could not determine the extent of this monitoring because of missing information, and in other cases, HUD had not annually assessed grantees, as required.

The Integrated Disbursement and Information System Is Not Providing Needed Information

Although the Integrated Disbursement and Information System (IDIS) was designed to provide complete, accurate, and timely information on grantees' expenditures and accomplishments, these goals are not being achieved because of four significant problems. First, because of flaws in the design of the information system, grantees have had to enter the same information multiple times—into another of HUD's information systems; into IDIS, several times; and into the grantees' own systems for reporting to their city—which could result in errors simply because of the multiple data entries. According to HUD, as of mid-February 1999, grantees had access to a batch file transfer process, referred to as Electronic Data Interchange, which allows grantees to automatically extract data from their own information systems and enter it into IDIS. Another difficulty is the time involved for grantees to access and use the system; in visits to grantees, GAO observed that accessing the system took as long as 40 minutes.

Second, when grantees enter incorrect information into IDIS, making corrections is difficult. Five of the 11 grantees GAO visited reported having multiple, significant errors in the system that they could not readily rectify. To make the corrections, IDIS technical staff sometimes instructed the grantees to create fake activities within IDIS ("dummy accounts") to reverse the incorrect data—although some of the grantees GAO spoke with were reluctant to do this because the information could appear to be inaccurate or fraudulent to outside observers.

Third, IDIS cannot track program income as it is received from the revolving loan funds that many grantees establish for such things as economic development loans. IDIS operates on the assumption that program income, from whatever source, should be used immediately to

fund the next activity. That is, the system cannot segregate income from revolving funds from other program income, although regulations permit grantees to preserve program income for reuse exclusively in their revolving funds. To work around this limitation, HUD instructs grantees to delay entering information on such income until they are ready to spend the money, but this approach requires grantees to keep two sets of books and prevents HUD from using IDIS to determine how much income grantees' are earning from their revolving funds and if grantees are meeting a regulatory requirement to spend grant money in a timely manner.

Fourth, while IDIS was intended to allow HUD to track grantees' performance on a real-time basis, it does not do so. IDIS does not require grantees to enter performance information before it releases grant funds to them. Grantees can obtain all funds for an activity without entering any performance information about it, and most of the grantees GAO visited waited until the end of the program year to enter information, when they were required to complete annual reports. And after grantees have entered the performance information, they have found that printing reports is difficult, requiring staff to work through a number of computer screens—as many as 70 at one field office GAO visited. GAO also determined that the security controls for IDIS are weak and therefore do not provide assurance that the information system is safe from fraud and abuse. Although GAO's Standards for Internal Controls states that users should have limited, or segregated, access to a computer system according to their responsibilities,[1] GAO found instances in which particular users at grantee locations had access that allowed them to both establish activity accounts and draw down funds, thereby increasing the opportunity for undetected errors or fraud. GAO also found instances in which terminated employees retained access to IDIS. According to the HUD official responsible for IDIS security, the staff resources devoted to arranging access for grantees are strained. Just he and two others handle the thousands of requests for access, he explained, and they cannot review the requests for appropriateness. In addition, GAO found that the security officer was not knowledgeable about computer security; the officer acknowledged that while he is familiar with computer networks, he has not done any work in security and has had no pertinent training. HUD is now developing a new Department-wide information system based on IDIS to manage all of its grant programs. IDIS' major functions are to be converted to a Windows environment, which will be more user-friendly. But given the extent and nature of the problems with IDIS, GAO questions its

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[1]GAO Internal Control: Standards for Internal Control in the Federal Government Exposure Draft (GAO/AIMD-98-21.3.1.).

use as a model for the Department-wide system. To address the problems GAO identified, IDIS will need to be modified extensively or replaced, whichever is more cost-effective.

Recommendations

To improve the integrity of the four block grant programs, GAO recommends that the Secretary of Housing and Urban Development direct the Assistant Secretary for Community Planning and Development to (1) emphasize the importance of on-site monitoring by specifying the level of grantee performance that requires it and the steps that should be taken in conducting it; (2) conduct a workforce analysis to determine the resources that may be required to better support the monitoring of grantees; and (3) improve the Grants Management Process information system by providing guidance to the field offices to ensure that they are entering information consistently. GAO also recommends that HUD consider whether it is more cost-effective to modify IDIS or replace it. Furthermore, before IDIS is used as the base for developing the new grants management information system for all of HUD's grant programs, GAO recommends that the problems it has identified with IDIS be corrected.

Lastly, HUD should immediately take steps to ensure that access to the Integrated Disbursement and Information System (IDIS) is appropriately limited and to ensure that the security officer for IDIS is fully aware of his responsibilities and has the appropriate training and staff. Chapters 2 and 3 contain additional details on these recommendations.

Agency Comments

GAO provided HUD with a draft of this report for its review and comment. HUD disagreed with a number of points in the report. HUD did not comment directly on the recommendations aimed at strengthening the integrity of the formula grant programs or improving the Integrated Disbursement and Information System. (See app. I.)

HUD commented that the report is unduly critical of its controls over the four formula block grant programs. HUD offered two overall reasons for this view. First, it commented that the report did not document the large-scale changes that HUD had undertaken and that have led to significant managerial improvements and strengthened accountability in the programs. Second, HUD disagreed about the extent of on-site monitoring of grantees that was necessary to provide effective management oversight, noting it has "taken a more comprehensive,

modernistic approach"—that is, an ongoing, continuous process of which on-site monitoring visits are one of several elements.

GAO's report recognizes that HUD has undertaken important changes to improve program management and accountability. It notes, among other things, that HUD has revamped its approach to managing the programs by requiring grantees to develop a consolidated plan that lays out how they will use the funds for all four programs, changed its monitoring of grantees to reflect a collaborative relationship, and developed the Integrated Disbursement and Information System so that grantees could, among other things, enter information describing their planning and projects and draw federal funds. GAO's report also concludes that HUD's revamped system provides a logical, structured approach to managing the block grant programs and that HUD has recognized the need for effective systems for overseeing the handling of program funds and the achievement of program objectives. Furthermore, GAO added to this report information on management improvements made to the Grants Management System that HUD reported after GAO had completed its field work. This information included, for example, HUD's distribution of additional instructions for incorporating more traditional risk elements, such as unresolved audit and monitoring findings, into the field offices' annual comparative review process.

GAO also agrees that HUD has taken a more ongoing, continuous approach to monitoring grantees and that this approach can provide useful insights into grantees' problems and achievements. However, GAO questions whether, at this time, approaches other than significant levels of on-site monitoring of grantees can adequately ensure that program objectives are being met and that funds are being managed appropriately, given the shortcomings of the Integrated Disbursement and Information System and other monitoring tools, such as consultations and technical assistance visits. GAO believes on-site monitoring is currently all the more important to compensate for these shortcomings. This is not to say that on-site visits should be made to every grantee each year; but rather, GAO believes periodic visits to grantees HUD identifies as needing improvements are essential.

HUD also did not comment on GAO's findings about the accuracy, completeness, and timeliness of the Integrated Disbursement and Information System information on grantees' expenditures and program performance. Instead, it commented that GAO's assessment fails to consider recent efforts to improve it. HUD provided compensating factors

for some of the Integrated Disbursement and Information System's weaknesses and pointed to recent and planned changes to the system it believed will correct these problems. GAO believes that HUD's recent and planned changes could, if properly implemented, improve the Integrated Disbursement and Information System. However, the numerous additional problems in usability, accuracy, and security still compromise HUD's ability to ensure the integrity of the four formula block grant programs. Therefore, we did not make any changes to our recommendations.

GAO continues to believe that HUD's revamped approach to managing the programs, as implemented, does not provide adequate assurance that the four block grant programs are meeting their objectives and that the funds are being managed appropriately. In the draft of this report, GAO proposed that HUD provide clearer and more detailed guidance on the factors that should be considered in evaluating grantee performance, with a heavier emphasis on factors that ensure compliance with program requirements. In view of the fact that HUD has distributed guidance adding more traditional risk factors to its annual comparative review, GAO has deleted that proposed recommendation from the report. Furthermore, GAO proposed that HUD improve the Grants Management Process information system so that field offices have a single data entry point for information on their monitoring activities. In view of the fact that on March 29, 1999 HUD added Grants Management Process screens to allow field offices to describe their monitoring activities, GAO has deleted that proposed recommendation from the report. In addition, GAO added information to the report to reflect HUD's guidance on conducting its annual comparative review and its plans to update the Grants Management Policy Notebook. Where appropriate, GAO has included other technical changes to the report. GAO's detailed responses and HUD's comments appear in appendix I and are discussed in chapters 2 and 3.

Contents

Figures

Abbreviations

AIDS	Acquired immunodeficiency syndrome
HIV/AIDS	Human immunodeficiency virus/acquired immunodeficiency syndrome
HOME	Home Investment in Affordable Housing Program
HUD	Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
CPD	Office of Community Planning and Development

Introduction

About one-quarter of the Department of Housing and Urban Development's (HUD) budget—almost $6 billion in fiscal year 1998—is devoted to four formula block grant programs that support community development. While those programs have different purposes, they all provide federal funds to grantees to help finance projects and services for local residents. The grantees include (1) 964 communities known as entitlement communities—generally cities designated as central cities of metropolitan statistical areas, other cities with populations of at least 50,000, and qualified urban counties with populations of at least 200,000—and (2) 48 states and some communities besides entitlement communities whose programs are administered directly by HUD.

In 1995, HUD revamped its management of these formula block grant programs. Instead of having a grantee develop separate plans for each program, a grantee is now required to develop a consolidated plan that lays out how it will use funds from the four programs for community development. To implement the use of consolidated plans and focus on performance monitoring, HUD instituted the Grants Management System—a seven-step process for managing program funds and activities—which placed greater reliance on the communities' actions to police themselves; it also phased in the Integrated Disbursement and Information System (IDIS), which is a computerized reporting system for recording the information grantees provide on their withdrawal of grant funds and their accomplishments.

Four Block Grant Programs Provide Funds for Community Revitalization and Aid to the Homeless

HUD's Assistant Secretary for Community Planning and Development administers four formula block grant programs that help communities plan and finance their growth and development and provide shelter and services for homeless people. The four programs are the Community Development Block Grant Program, the Home Investment in Affordable Housing Program (HOME), the Emergency Shelter Grant Program, and the Housing Opportunities for Persons With AIDS Program. The grantees in these programs distribute their grant funds to some 10,000 "subrecipients," such as nonprofit providers, while the states distribute their grants to local governments. These subrecipients and local governments provide services directly to the beneficiaries of the programs.

In order to participate in the four programs, grantees must meet general and specific requirements. For instance, in order to apply for one of the four formula grants, a grantee must develop a long-term plan, generally for 3 to 5 years, that lays out activities under all four programs. This plan must

include an assessment of needs for housing and the homeless; a housing market analysis; a 1-year action plan; certifications of compliance with various regulatory requirements, standards, and procedures that the jurisdiction will use to monitor activities carried out in furtherance of the plan; and a citizen participation and government consultation plan. Projects and activities undertaken with program funds must meet the specific objectives and requirements of each program.

Community Development Block Grant Program

The Community Development Block Grant Program has long been the principal federal community development program, providing funding for metropolitan cities and urban counties and for small cities. The program provides annual grants on a formula basis that takes into account population, poverty, housing overcrowding, the age of the housing, and any change in an area's growth in comparison with that of other areas. The activities undertaken must address at least one of three national objectives: They must (1) benefit low- and moderate-income families, (2) aid in the prevention or elimination of slums or blight, or (3) meet urgent community development needs. In fiscal year 1998, the Congress appropriated about $4.9 billion for the Community Development Block Grant Program. This funding was subject to over $700 million in set-asides, including ones for Indian tribes and historically black colleges.

Home Investment in Affordable Housing

The HOME Program provides federal assistance to participating jurisdictions or Indian tribes for housing rehabilitation, rental assistance, assistance to first-time homebuyers, and new housing construction. The HOME formula for allocating funds measures a jurisdiction's share of the total need for an increased supply of affordable housing.

In fiscal year 1998, the Congress appropriated about $1.5 billion for the HOME Program—$863 million was allocated by formula to cities, urban counties, and consortiums (contiguous units of local government), and $575 million went to the states. The program's funding is also subject to several set-asides.

Emergency Shelter Grants Program

The Emergency Shelter Grants Program is designed to supplement state, local, and private efforts to provide emergency shelter assistance for the homeless. Program funds can be used to rehabilitate or convert buildings for use as emergency shelters for the homeless, to pay for certain operating expenses and essential services in connection with emergency

shelters for the homeless, and to conduct activities to prevent homelessness.

Under this program, HUD makes grants to the states, units of general local government, and territories on the basis of the Community Development Block Grant formula. In fiscal year 1998, the Congress appropriated $823 million for Homeless Assistance Grants, of which $165 million was allocated for the Emergency Shelter Grants program.

Housing Opportunities for Persons With AIDS

The Housing Opportunities for Persons With AIDS Program gives states and localities the resources and incentives to devise long-term strategies for meeting the housing needs of low-income persons with human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) or related diseases.

HUD awards 90 percent of the annual appropriation by formula to eligible metropolitan statistical areas and states. Metropolitan areas with populations greater than 500,000 and more than 1,500 cumulative cases of AIDS are eligible for grants; the most populous city in an eligible metropolitan area serves as that area's grantee. In addition, states with more than 1,500 cumulative cases of AIDS in areas outside of eligible metropolitan areas qualify for funds. The remaining 10 percent of the program's annual appropriation is set aside for grants awarded on a competitive basis. In fiscal year 1998, the Congress appropriated $204 million for the Housing Opportunities for Persons With AIDS Program.

CPD's Oversight of Grants Through the Grants Management System

HUD's Office of Community Planning and Development (CPD) administers the four formula grant programs through 42 field offices located throughout the United States. These offices report directly to CPD's Office of Executive Services, Field Management Division. Both headquarters and field offices are now relying on the Grants Management System to oversee grantees.

Field Office Organization

Each field office is managed by a director, who is responsible for ensuring that the field office's annual work plan is carried out. An annual work plan is based on the field office's annual assessment of each grantee and a comparison of the grantees' performances (known as an annual comparative review). The work plan describes the actions the field office plans to take for each grantee during the year. For example, grantees

designated as needing improvement may be scheduled for technical assistance or on-site monitoring.

Reporting to the director are teams of CPD representatives who are responsible for monitoring a caseload of grantees. Each team is managed by a program manager. Several types of support staff supplement the efforts of the CPD representatives. For example, financial analysts review, monitor, evaluate, and provide technical advice and assistance on financial matters concerning grant awards and grantees' financial systems. Other support staff include environmental, relocation and real estate, and clerical staff.

CPD Headquarters' Organization

The 42 field offices report directly to the Office of Executive Services, Field Management Division. The division is responsible for setting priorities, promulgating departmental goals, providing resources, solving problems, representing the field offices in headquarters, training, and evaluating field offices' performance. It operates through eight desk officers, each of whom is responsible for a number of field offices—including monitoring the offices' operations, providing assistance, and providing input to the field offices' end-of-the-year evaluation signed by the Director of the Office of Executive Services.

The desk officers oversee the field offices through telephone conversations and E-mail correspondence, occasional on-site visits, and periodic queries to the Grants Management Process information system. This information system is a computerized management information system that the field offices use to record their interactions with their grantees. For example, once a CPD representative completes a review and assessment of the grantee's annual plan for using its formula grant funds, the results are entered into the Grants Management Process information system.

Grants Management System

In 1995, HUD introduced the Grants Management System to ensure that formula block grantees are achieving high performance and are in compliance with program requirements. This system deemphasized compliance monitoring and placed greater emphasis on (1) promoting a more collaborative approach that includes up-front assistance to help grantees achieve their goals and identify and solve their problems and (2) ensuring that grantees develop systems to monitor their own performance. Before the Grants Management System, HUD's primary

activities in administering the block grant programs were to assist communities in understanding program requirements and to monitor local programs to ensure compliance with statutory and regulatory requirements.

The Grants Management System and the information systems supporting it—the Integrated Disbursement and Information System (IDIS) and the Grants Management Process information system—are intended to help HUD comply with the requirements of the Government Performance and Results Act of 1993 (P.L. 103-62). The act requires agencies to establish long-term general goals as well as associated annual goals. In addition, agencies must measure their performance against the goals they have set and report publicly on how well they are doing. The Grants Management System is intended to target limited resources so that they can best be used to achieve locally defined goals while also providing best practices to serve as models to enhance and improve performance among all grantees.

As figure 1 shows, the Grants Management System is a seven-step process of interaction between CPD and the grantees that involves (1) consulting, (2) conducting a plan review and assessment, (3) monitoring a grantee's performance (performance-based program management), (4) reviewing the grantee's consolidated annual performance and evaluation report, (5) conducting an annual community assessment, (6) conducting an annual comparative review, and (7) systematically identifying and encouraging the use of best practices. Broadly, the Grants Management System establishes internal controls—plans, methods, and procedures used to meet objectives—that involve monitoring and, according to GAO's Standards for Internal Controls in the Federal Government, must themselves be monitored. Field offices enter the results of each of these steps into the Grants Management Process information system.

Figure 1.1: The Grants Management System's Seven-Step Process
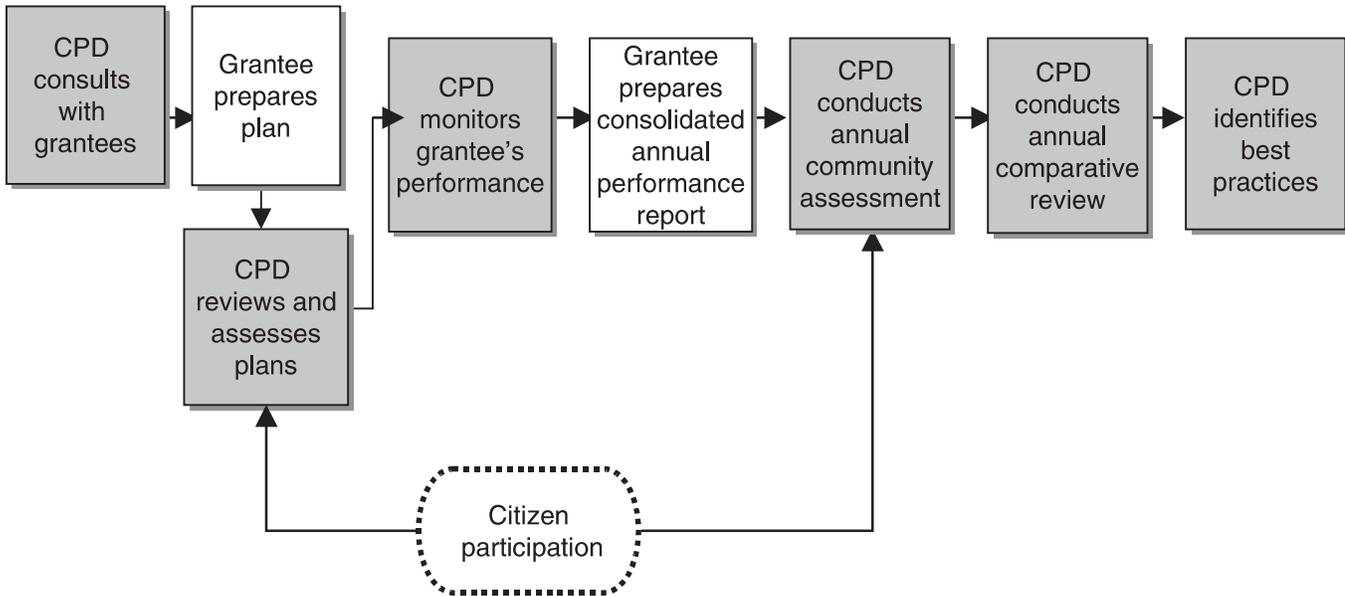
Source: CPD.

Consultation

CPD uses consultation as a tool to enhance the quality and effectiveness of a grantee's plans and programs. These consultations are held as early as possible in the grantee's process for developing its next year's planned activities. The participants in these meetings should include the chief elected official of the community and other stakeholders, as appropriate. The discussions should be centered on relevant planning, performance, and compliance issues. When possible, these discussions should be conducted at the grantee's offices.

Plan Review and Assessment

CPD uses the grantee's consolidated plan and annual action plan as the basis for its program management and evaluation responsibilities. CPD's review and assessment focuses on the plans' completeness; their effectiveness as communication tools for citizens; the soundness of their strategies and the likelihood that they will address identified needs; and their ability to serve as the basis of future assessment and performance evaluation. CPD has 45 days from receipt of the plans to review and approve or disapprove them or the plans are automatically approved.

Performance-Based Program Management

CPD is to oversee the grantee's activities throughout the program year through performance-based management. This process includes an assessment of the performance and overall effectiveness of the programs implemented by the grantees as well as traditional compliance monitoring. CPD must use a wide range of tools in evaluating a grantee's performance. These tools include the consolidated and action plan review and assessment, performance data that the grantee enters into IDIS, the annual community assessment, on-site monitoring, and consultations with community officials and other stakeholders to define or improve a local program.

Consolidated Annual Performance and Evaluation Report

At the end of the program year, a grantee submits a consolidated annual performance and evaluation report whose goal is to show what the grantee has accomplished with the grant funds. The report allows CPD, local officials, and the public to draw conclusions on grantees' performance. A grantee should submit this report to its CPD field office 90 days after the end of the grantee's program year, which varies by grantee. The report is to cover all activities undertaken by the grantee during the program year regardless of the fiscal year of the grant. If a grantee fails to submit the report in a timely manner, CPD can suspend or terminate the grantee's funding. According to the Grants Management System Policy Notebook, CPD's review of the report should be completed within 60 days of receipt; however, this time frame is not required by regulation.

Annual Community Assessment

Using the consolidated annual performance evaluation report and other available information, such as the results of monitoring activities, CPD annually assesses each grantee's performance to determine whether the grantee has carried out its planning, activities, and reporting in accordance with statutory requirements and provides the grantee with a written report on its performance. This assessment is to begin no later than 3 months after the end of the program year. CPD is to complete the assessment within 60 days and provide the grantee with a letter that cites the grantee's accomplishments and any areas that need improvement. The grantee is given 30 days to comment on the assessment's findings.

Annual Comparative Review

In conducting an annual comparative review, each field office evaluates its portfolio of grantees by quality and risk and identifies grantees that it considers to be performing exceptionally well, those that are performing adequately, and those that need more oversight or assistance. At the completion of this review, CPD develops a work plan for each grantee that describes the management strategy for the grantee for the coming program year. If the grantee has areas needing improvement, the field office will

identify actions and strategies for addressing that problem. Actions may include on-site monitoring, technical assistance provided by staff and contractors, peer-to-peer assistance, and training.

Best Practices

During the annual comparative review or at any time, field offices identify best practices—systems and programs that work particularly well and that can be used to improve the performance of other grantees. Best practices are programs or projects, management tools, and/or techniques that fulfill at least two of the following characteristics:

- They generate a significant positive impact on those they are intended to serve or manage and are replicable in other areas of the country, region, or local jurisdiction.
- They demonstrate the effective use of partnerships among government agencies, nonprofit organizations, and/or private businesses.
- They display creativity in addressing a problem.

IDIS

IDIS is a computer-based management information system that consolidates planning and reporting processes across the four formula grant programs. The grantees use this system to enter information on consolidated planning, establish projects and activities to draw down funds, and report accomplishments. The system is supposed to reduce the grantees' reporting burden by providing a single computer system for obtaining funding and reporting on the use of grant funds, regardless of the formula grant program. Moreover, the system is supposed to provide CPD staff with real-time performance data from the grantees, such as the number of people served, jobs created, houses rehabilitated; income characteristics of beneficiaries; benefits provided; information to judge if national objectives are being met; and information on funds drawn down by the grantees. This information is needed for CPD to evaluate grantee performance and to determine the assistance is needed.

Figure 1.2 shows CPD's structure and information systems in managing the four formula grant programs.

**Figure 1.2: CPD's Management of
Formula Grant Programs**
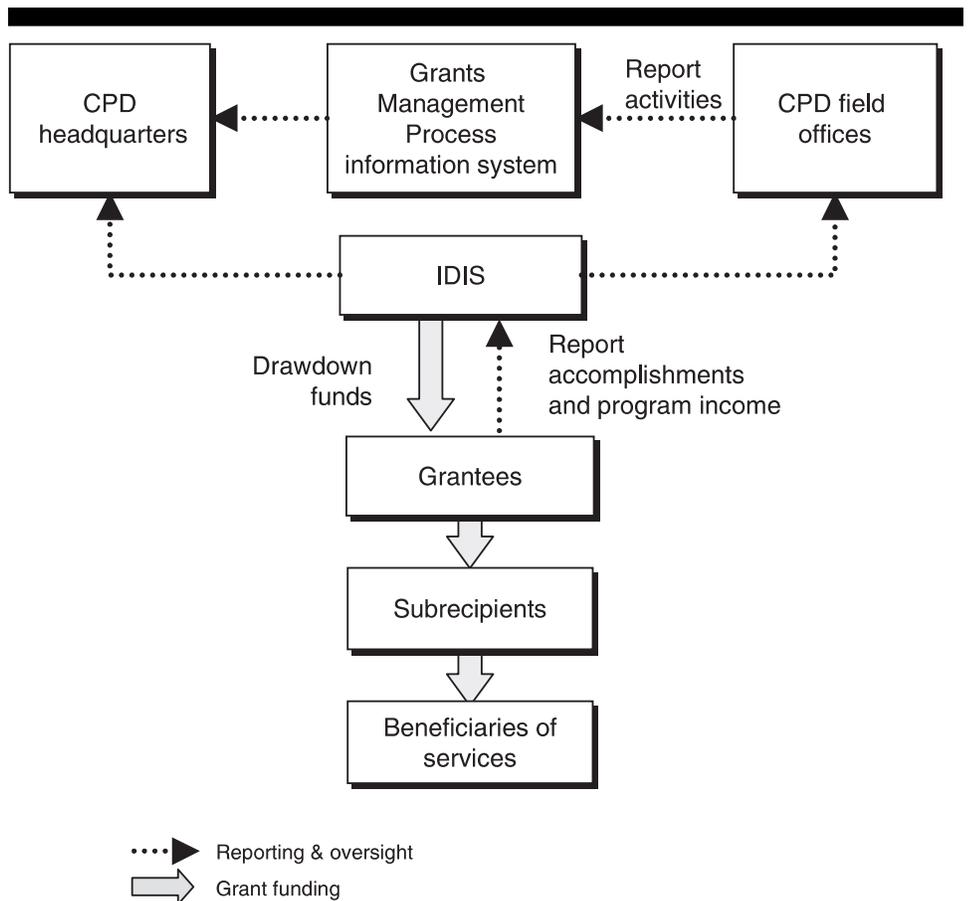
Source: GAO's analysis of CPD data.

Objectives, Scope, and Methodology

The former Chairman of the Subcommittee on Housing Opportunity and Community Development—now the Subcommittee on Housing and Transportation—, Senate Committee on Banking, Housing, and Urban Affairs, and the Chairman of the Subcommittee on Housing and Community Opportunity, House Committee on Banking and Financial Services, asked GAO to assess whether controls are in place to ensure that the block grant programs' objectives are being achieved and that funds are managed appropriately. In particular, we examined whether (1) HUD's on-site monitoring of grantees under the Grants Management System is adequate and (2) the Integrated Disbursement and Information System provides the data HUD needs to accurately assess grantees' performance.

Our work focused on CPD's four formula grant programs—the Community Development Block Grant Program, HOME Investment in Affordable Housing Program, Housing Opportunities for Persons With AIDS Program, and Emergency Shelter Grants Program. We evaluated IDIS operations and the Grants Management System, CPD headquarters' oversight of its 42 field offices, and 5 field offices' oversight of 11 grantees. In selecting field offices, we considered geographic dispersion, size, grant fund allocations, and past performance.

In addressing both questions, we examined information from a number of sources, including relevant GAO reports, the HUD Office of the Inspector General's audits of CPD's formula grant programs, and independent contractor's audits and studies of IDIS and CPD's internal controls. In addition, we interviewed key agency officials, the independent contractors supporting IDIS and reviewing the Grants Management System, and representatives of various grantee organizations.

In evaluating the Grants Management System, we interviewed CPD officials at field offices located in Fort Worth, Texas; Boston, Massachusetts; Los Angeles, California; Coral Gables, Florida; and Omaha, Nebraska. In our analysis, we applied the relevant criteria GAO has issued on internal controls and guidelines for evaluations and the laws, regulations, and procedures pertaining to the four formula block grant programs. We evaluated the Grants Management System's design and reviewed its implementation in each of the five field offices. Specifically, we assessed the caseloads of each field office representative; analyzed the offices' process for reviewing and monitoring grantees' action plans, transactions, and performance information; and documented the field offices' responses to this information.

We also visited a total of 11 grantees managed by the five field offices we visited. These grantees were selected on the basis of their size, performance evaluations, and proximity to the field offices. While at these grantees, we interviewed relevant city officials and conducted limited file reviews to determine if HUD was effectively managing these grants, obtained the grantees' opinions on the level of monitoring and technical assistance provided by the CPD field office; and validated selected information provided through IDIS. The grantees we visited include Fort Worth, Arlington, and Dallas, Texas; Lincoln, Nebraska; Council Bluffs, Iowa; Medford, and Lowell, Massachusetts; Inglewood, and Ontario, California; and Miami, and Pompano Beach, Florida.

We evaluated IDIS internal controls and conducted selective testing of IDIS transactions. We interviewed key HUD officials both in headquarters and the field as well as staff at the grantees we visited regarding IDIS' functionality, training, and security. We also tested IDIS' accuracy by tracing financial and accomplishment data to source documents for randomly selected activities.

Our review was conducted from May 1998 through April 1999 in accordance with generally accepted government auditing standards.

Monitoring Under the Grants Management System Does Not Ensure That Grantees Are Managing Their Funds Appropriately to Achieve Program Objectives

While the Grants Management System provides a logical, structured approach to managing the four block grant programs, CPD's monitoring under the system, of which IDIS is a critical part, does not ensure that program objectives are being met and that funds are being managed appropriately. While the on-site monitoring of grantees is an essential tool for making such determinations, it is all the more important because of the shortcomings of IDIS (discussed in ch. 3) and other monitoring tools, such as consultations, technical assistance visits and audits performed by independent public accounting firms. For the five CPD field offices we visited, accounting for approximately 20 percent of all formula grant funds in fiscal year 1998 ($1.18 billion), most of the poorest performing grantees, identified by CPD through the annual comparative review, were not identified for on-site visits. And even when on-site visits were scheduled for the poorest performing grantees, the visits often did not occur because of a shift in emphasis away from intensive on-site monitoring and resource constraints in the field offices. Furthermore, CPD headquarters has reduced its oversight of the field offices because of a desire for a more collaborative relationship and because of resource constraints.

Such breakdowns in monitoring make the Department vulnerable to fraud, waste, and abuse in its formula grants programs. In our review of 11 grantees, we identified various problems related to the financial operations of and results achieved by grantees, including vouchers assigned to the wrong project and year and incomplete or missing information on key data such as recipients, statements of work, and contracts. In addition, since the Grants Management System was introduced in 1995, HUD's Inspector General has questioned grantees' expenditure of about $26 million. Finally, the Inspector General and an independent study performed in 1998 of six field offices and 11 grantees reported that CPD's monitoring is inadequate.

CPD's Implementation of the Grants Management System Does Not Ensure That On-Site Monitoring Occurs and That the Poorest Performing Grantees Are Reviewed

While HUD's Grants Management Policy Notebook emphasizes the importance of on-site monitoring in implementing the Grants Management System, stating that on-site monitoring is an essential tool for determining whether important program requirements are being met, the five field offices we visited have generally conducted limited on-site monitoring of grantees and of those grantees CPD identifies as most in need of oversight or assistance. Furthermore, when on-site reviews occur, field offices may not obtain the comprehensive, in-depth information they need to oversee grantees' performance. A problem exists with the definition of poor performance because CPD has not established standard criteria for determining the level of performance grantees achieve, which means that CPD has no assurance that the grantees most at risk of failing to meet program requirements are consistently being identified for more intensive review.

## Field Offices Have Conducted Limited On-Site Monitoring of Grantees and Have Not Focused on the Poorest Performing Grantees

The field offices we visited targeted about 37 percent of their grantees for on-site monitoring but visited far fewer. As figure 2.1 shows, during fiscal year 1998, the five field offices identified 85 of their 228 grantees for on-site monitoring but only conducted 33 visits—14 percent of all grantees.

Figure 2.1: Five Field Offices' On-Site Monitoring of Grantees, Fiscal Year 1998
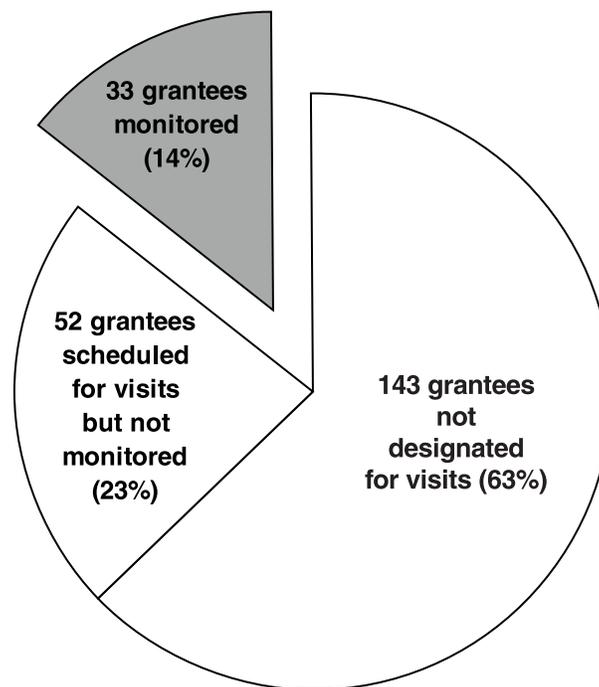
Source: GAO's analysis of CPD's data.

Furthermore, while the grantee evaluation performed during the annual comparative review is intended to maximize the use of limited resources by targeting the grantees most in need of attention, the 33 grantees visited by the five field offices were not necessarily those CPD had determined were the poorest performers. As figure 2.2 shows, only 38 of the 85 grantees designated for on-site monitoring were rated among the lowest performing grantees in the annual comparative review, that is, those needing the greatest oversight or assistance. Moreover, only 15 were actually monitored, and the remaining 23 visits were cancelled because of resource limitations, according to the field office directors.

Figure 2.2: Field Offices' On-Site Monitoring of Poor Performing Grantees

85 grantees scheduled for monitoring

38 grantees among the highest risk

47 not among poorest performers

38 among poorest performers

23 not monitored

15 monitored
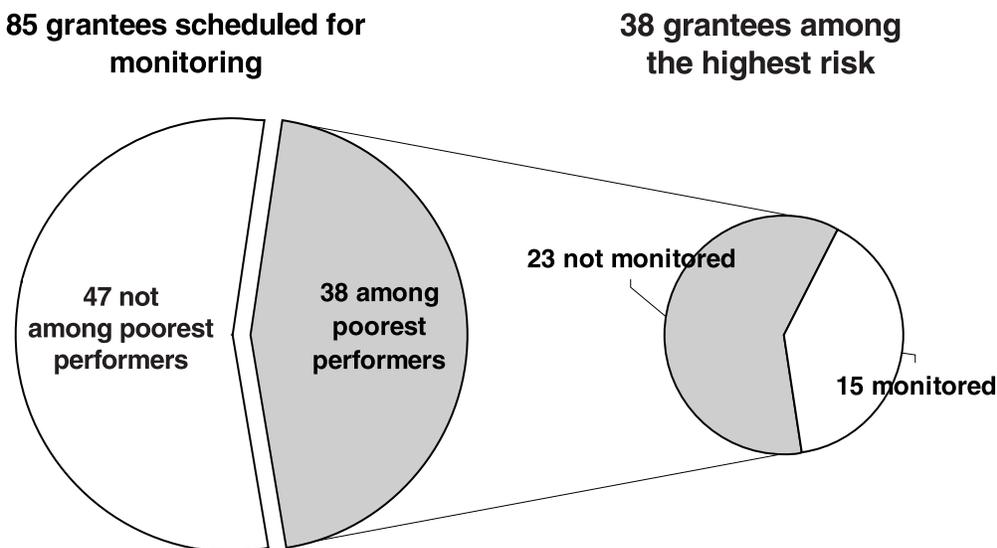
Source: GAO's analysis of CPD's data.

According to the CPD directors of four of the five field offices, they have significantly reduced their on-site monitoring of grantees in recent years.[2] According to monitoring information provided by the four directors, on-site monitoring in these offices fell by about 88 percent between 1990 and 1998. Nevertheless, officials of two associations that represent grantees—the National Community Development Association and the National Association for County Community and Economic Development—and several grantees we visited supported more on-site monitoring because monitoring ensures that they are generally on the right track. They said they want to know whether they are operating their programs properly and to have problems corrected before they are penalized for inadequate management. One association official said that some grantees are becoming concerned because they have not been monitored in years.

[2]The Miami field office could not provide historical monitoring information because it was not established until 1996.

Infrequent on-site monitoring by CPD has occurred for two principal reasons discussed below: (1) a shift in emphasis under the Grants Management System and (2) significant resource reductions.

Shift in Monitoring Emphasis

The Grants Management System shifted the focus of the government/grantee relationship from one of monitoring grantee compliance with program requirements to a more collaborative relationship that includes up-front assistance to help grantees achieve their objectives and identify and solve problems. In line with this philosophy, CPD encouraged the field offices to increase the level of remote monitoring through IDIS and other tools such as IDIS reports, consultations, technical assistance visits, and audits performed by independent accounting firms and reduce the level of intensive on-site monitoring. In February 1997, we reported that of the 32 CPD directors surveyed, 41 percent said that headquarters' emphasis on completing essential monitoring was low, and 66 percent believed that the amount of on-site inspections should increase.[3]

Significantly Reduced Resources

As the directors of the five field offices said, and as we reported in February 1997, the level of on-site monitoring is lower than it should be principally because of a lack of staff and travel funds. Resources have been reduced while responsibilities have increased. CPD lost almost one-fourth of its staff—264 people—between 1992 and 1997. At the same time, staff have had to take on new responsibilities for programs worth billions of dollars: homelessness programs, technical assistance grants, and Empowerment Zone and Enterprise Community grants.[4] This caused the annual grants per employee to double from about two to about four over approximately the same period. In addition, the staff in some field offices have to carry out administrative tasks because of administrative staff shortages. CPD directors told us that staff reductions, combined with workload increases, have forced them to have to make sacrifices, and they consistently mentioned the elimination of on-site monitoring as one of those sacrifices.

Furthermore, CPD directors told us that the Grants Management System was not generating resource efficiencies as they had hoped. While IDIS, along with the Grants Management Process information system, were to

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[3] HUD: Field Directors' Views on Recent Management Initiatives (GAO/RCED-97-34, Feb. 12, 1997).

[4] CPD oversees a number of programs designed to reduce homelessness, technical assistance grants to help grantees correctly administer CPD programs, and the Empowerment Zone and Enterprise Community Program, which is designed to help selected distressed communities develop comprehensive approaches for dealing with their social and economic problems.

foster the efficiencies of remote monitoring, IDIS requires substantial time to learn and maintain, and the annual consultations also use time and travel dollars, the directors reported. According to the directors, these extra requirements make on-site monitoring more difficult.

Officials in one field office told us that the cost of travel is a major factor in determining which grantees will receive on-site monitoring because the field office has to cover a large geographic area. They said that the grantees that are relatively close to the field office receive the greatest oversight. For instance, while this field office had nominated a grantee for a best practices award, field office staff still made weekly technical assistance visits to that grantee because it was nearby. Yet, of the field office's 16 poorest performing grantees, only 3 received on-site monitoring. In May 1997, CPD acknowledged these problems in its Management Reform Plan, which noted the following:

"Among . . . [CPD's] key problems are: a. Staff and travel funds are too limited to do adequate on-site monitoring and validation of high risk activities of grantees. b. CPD approves over 1,300 competitive grants a year and has to monitor cumulatively many thousands of competitive grants, a workload increasingly difficult to handle with the loss of 23% of staff since 1992 and continued drop in staff under the downsizing. c. With the approval of hundreds of economic development projects in the past several years, CPD has insufficient staff resources in both number and expertise to monitor these programs adequately." [5]

Despite recognition of this problem, CPD has not conducted a workforce analysis to determine its staffing needs and accurately target its staff resources since 1996. Furthermore, while HUD's travel budget increased from $15.6 million in fiscal year 1998 to $19 million for fiscal year 1999, HUD decreased CPD's field office travel allocation from $416,051 in 1998 to $412,000 in 1999. Moreover, the field office travel allocation for fiscal year 1999 is over $100,000 less than it was in fiscal year 1994.

On-Site Monitoring That Is Conducted Is Not Uniform or Comprehensive

Before the Grants Management System was established, field offices used the CPD Monitoring Handbook more universally. This handbook specified the level of monitoring warranted for high-risk grantees and the scope and intensity of the on-site review. It indicated that on-site monitoring should include validating reported information by reviewing case files; reviewing financial information; spot-checking capital improvement projects; and

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[5]The HUD 2020 Management Reform Plan presents a fundamental management overhaul that focuses on improving HUD's management of its programs and staff.

visiting sites that provide direct services to beneficiaries, such as a homeless shelter. It also included checklists that focused on compliance with program requirements, such as the grantee's progress in achieving project objectives, compliance with national objectives for the Community Development Block Grant Program, grant administration, citizens' participation, and property rehabilitation activities, among others. Some of these activities were reviewed by CPD representatives, while others were reviewed by specialists such as financial analysts. Staff had to report on the results of the review in the form of a letter to the grantee and other relevant officials. According to one field office director we spoke with, a comprehensive on-site review would usually take about a week or two to complete.

Under the Grants Management System, however, CPD has no assurance that such comprehensive on-site monitoring will occur. The Grants Management System Policy Notebook does not ensure that field offices will conduct comprehensive monitoring of the grantees that they do visit because it does not provide specific procedures that have to be carried out during such a visit. Two field office directors and the Director of CPD's Field Management Division said that the principles in the monitoring handbook still applied but that field offices are not required to follow them. Field offices have significantly curtailed the actions they take during on-site monitoring.

Instead, monitoring under the Grants Management System targets the specific aspects of grants administration in which the grantee needs improvement. For example, one field office focused its monitoring visits only on the grantees' monitoring of subrecipients. Of the five offices that we visited, only one office had conducted a comprehensive on-site monitoring of a grantee in 1998. According to the field office director, the field office no longer routinely conducts comprehensive on-site monitoring, but did so in this instance in response to a citizen's allegation of fraud in the use of federal funds.

The lack of specific monitoring guidance thus allows for significant variation in the way HUD field offices oversee almost $6 billion in formula grant funds. While one field office we visited focused its half-day monitoring visits only on the grantees' monitoring files for subrecipients, another office conducts complete multiday reviews of one of a grantee's programs. In a third field office, the complete fiscal year 1998 on-site monitoring for one grantee that receives $28 million annually in CPD

formula allocations consisted of a one-day visit to one HOME project by a single HUD employee, who had never before conducted a monitoring visit.

According to HUD, the Grants Management Policy Notebook will be revised to provide detailed guidance to field offices on ensuring compliance with program laws and regulations. This guidance is scheduled to be made final and distributed at the end of July 1999.

Tools Other Than On-Site Monitoring Are Not Providing Accurate and Complete Information

The directors of the five CPD field offices we visited generally agreed that comprehensive on-site reviews provide a higher level of assurance of program compliance and proper use of funds than other available tools—IDIS reports, consultations, technical assistance visits, and audits performed by independent public accounting firms. These other tools do not provide the detailed information that field offices need to effectively monitor program performance, according to the directors. As we discuss in chapter 3, we found during our visits to field offices that grantees were not always entering complete and accurate information into IDIS and that the system cannot provide timely and accurate information on grantees' performance. In addition, some CPD representatives were not using IDIS to retrieve information on grantees' performance. Furthermore, field offices' consultations with grantees are primarily geared to providing local officials with an evaluation of the grantees' performance and to identifying technical assistance needs and resources, rather than reviewing projects and activities and documentation supporting those activities. Similarly, technical assistance visits are made to provide the grantees with information to help them operate their programs more effectively. One director acknowledged that field office staff can make observations on grantees' financial and performance matters during these visits, but the visits' primary purpose is not monitoring. Moreover, technical assistance is often performed by contractors who do not have a monitoring role. Finally, according to the Director of the Field Management Division and all five field office directors, independent public accounting audits do not provide enough detailed program performance information.[6]

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[6]The Single Audit Act, 31 U.S.C. 7501-750, provides uniform audit requirements for all federal assistance programs, that award funds to states, local governments, or nonprofit organizations. Rather than being a detailed review of individual grants or programs, a single audit is an organizationwide financial and compliance audit that focuses on accounting and administrative controls. A single audit is designed to advise federal and grantee officials and program managers on whether an organization's financial statements are fairly presented and to provide reasonable assurance that federal financial assistance programs are managed in accordance with applicable laws and regulations. It is not intended to provide detailed performance information.

The Grants Management System Does Not Provide Uniform Criteria for Evaluating Grantees' Performance

The latitude allowed in evaluating the level of grantees' performance is another problem for monitoring under the Grants Management System. The field offices have considerable discretion in setting their annual work plans—including deciding on which grantees are poor performers and what type of oversight they may need. The Grants Management Policy Notebook, which describes how to manage a grantee's performance, provides only general criteria for evaluating this performance. These criteria include the adequacy of the grantee's consolidated plan and the grantee's efforts to (1) address the continuing needs of the homeless population, (2) provide affordable housing to all populations and income groups, (3) increase economic opportunity, (4) provide a suitable living environment for its recipients, and (5) meet program requirements. The policy notebook leaves it to the individual field office to determine which of these factors to weigh more heavily in targeting grantees for review. On the basis of these criteria, the field office is to determine which grantees are performing exceptionally well, performing adequately, or needing more oversight or assistance.

While these criteria include an important focus on results in the community, they do not provide assurance that field offices will consistently emphasize the factors that will target grantees on the basis of compliance with internal controls designed to protect against fraud or abuse. According to two field office directors, in determining which grantees need to be monitored more closely in the coming year, the Grants Management System shifted the focus from the factors that could result in the inappropriate use of federal funds to the more performance-based factors presented in the Grants Management Policy Handbook. Furthermore, in reviewing the Community Development Block Grant Program, an independent accounting firm noted the need to identify at-risk grantees by using more traditional risk factors, such as unresolved audit or monitoring findings, the number of subgrantees and subrecipients receiving funds, the amount of program income, the size of the grant, the last date of monitoring, and staff turnover.[7] In response to this report, on September 29, 1998, HUD promulgated risk analysis guidance that included most of these risk factors.

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[7]Soza & Company Ltd. U.S. Department of Housing and Urban Development Office of Audit Resolution, Verification Review of Material Weakness 91-02, Community Development Block Grant "CDBG", March 19, 1998.

Reviews Have Identified Significant Financial and Performance Problems at Grantees

Our visits to 11 grantees and 11 reports by HUD's Inspector General, while not generalizable to all block grant programs, identified significant problems that could have been identified if field offices were conducting comprehensive on-site monitoring. Specifically, at several grantees, we found problems in the monitoring of subrecipients that ranged from a lack of records showing that such monitoring had been done, although the grantees said monitoring had occurred, to an acknowledgement by one grantee that no monitoring had occurred during the 1998 program year. Without subrecipient monitoring, HUD has no assurance that subrecipients are complying with program requirements and are achieving their intended objectives.

For other grantees, in examining the project files, we found inadequate documentation to support payments to contractors, payment vouchers that were unrelated to the project, and a lack of documentation to justify project overruns. For example, at one grantee, the project files were missing so much information that we could not determine if we had identified all of the problems. This grantee had incomplete or missing information—on such key data as the qualifications of recipients served, such as certifications that recipients are of low or moderate-income, statements of work, and contracts—in the nine project files we reviewed. Although this grantee received a monitoring visit in the 1998 program year, the monitoring was targeted to specific program areas, and the monitoring report did not disclose the problems we identified. For example, for one project budgeted for $30,000, the file included two contracts indicating that it had received $40,000 and then another $60,000. We were told that the latter $60,000 contract was cancelled, but the file included no documentation of this. For another project budgeted for $135,000, the file included weekly progress reports, but payment vouchers (justifying the payments made to contractors) and other important documents, such as a statement of work, were missing. And for still another project, the file indicated that the project was budgeted at $145,000 and internal accounting records indicated that over $300,000 was spent, but neither of these figures could be reconciled with the withdrawal of approximately $240,000 that was recorded in IDIS. The file did not include any justification or support for the discrepancies and the overrun. This grantee was not alone in poorly accounting for its use of funds. For example, at another grantee, we could not reconcile payment vouchers with project totals for a street-paving project that cost $259,200.

Our reviews also showed problems with reporting accomplishments and determining whether grantees were following regulations. For example, at

another grantee, we observed the double-counting of accomplishments from one project. In particular, the project file supported only half as many demolitions as were reported in IDIS.

In 11 reports based on reviews of some grantees, HUD's Inspector General found that grantees are not complying with financial and performance requirements and consequently has questioned the expenditure of about $26 million in grant funds since HUD began using the Grants Management System. For example, the Inspector General reported that a grantee had improperly charged over $2 million in administrative costs to prior program years. Since the costs were transferred before the end of the program year, the grantee did not disclose these costs in its annual performance report. Without on-site validation of the information in the report, the CPD field office could not determine that improper transfers had been made. According to the CPD representative who was responsible for this grantee, the limited monitoring that was done during this period could not have identified the conditions the Inspector General had uncovered.

In another audit, the Inspector General found significant weaknesses in a grantee's internal controls for its housing rehabilitation program under its Community Development Block Grant Program. For example, the Inspector General identified 11 houses that had recently been rehabilitated, inspected, and approved by the grantees' inspectors. However, the Inspector General's inspectors said these houses should not have passed inspection. According to the Inspector General's report, the deficiencies identified by the Inspector General's inspectors had been allowed to go uncorrected because the grantee's inspectors were not specifically trained to perform inspections and were pressured to perform cursory inspections in order to meet production goals. In addition, the Inspector General reported that because the grantee did not have any procedures for collecting payments on rehabilitation loans, the grantee had a delinquent loan balance of over $100,000. Some of these loans had been delinquent for over 8 years. The Inspector General reported that this audit was initiated by the grantee, not CPD, following up on an audit conducted by an independent accounting firm.

HUD's Inspector General has also specifically faulted CPD's monitoring of grantees. For example, in its audit of HUD's fiscal year 1997 financial statement,[8] the Inspector General focused on whether the Grants Management System had been implemented and whether the system was

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[8]HUD's Office of Inspector General, Financial Audits Division, Office of Audit. U.S. Department of Housing and Urban Development Audit of Fiscal Year 1997 Financial Statements (98-FO-177-0004, Mar. 20, 1998)

providing adequate oversight of grantees. For some of the grantees, the Inspector General could not determine the extent of CPD's monitoring of grantees' performance because it could not find documentation of monitoring in CPD's files. It also found that CPD had not done annual community assessments for some grantees. Though these required assessments are needed in order to reach an opinion on the grantees' performance for the year, CPD officials explained that staff shortages resulting from HUD's downsizing during fiscal year 1997 had prevented them from conducting the assessments. The Inspector General concluded that CPD could not ensure that all grantees were expending funds only on eligible activities and individuals.

In addition, the independent accounting firm assigned to the verification review of CPD's actions to correct material weaknesses in the Community Development Block Grant Program faulted CPD's practices for monitoring grantees. Its report indicated that four of the six field offices visited had not conducted significant on-site monitoring visits for fiscal years 1996 and 1997.

Little Oversight by CPD Headquarters of Field Offices' Operations

In addition to the problems in CPD's monitoring of grantees, CPD headquarters is not adequately monitoring the field offices' operations. According to representatives of an independent accounting firm that reviewed CPD's actions to correct material weaknesses in the Community Development Block Grant Program (which represents almost three-quarters of the funding for the four block grant programs examined), CPD headquarters' oversight of the field offices is almost nonexistent. The March 1998 report states the following:

"CPD had conducted Field Office Reviews in the past, however these reviews have been discontinued. We were unable to identify any procedures being performed by Headquarters that would be adequate for evaluating the quality and sufficiency of procedures being applied by the Field Offices."

In addition, the representatives of the accounting firm said that the lack of headquarters oversight represents a material weakness in internal controls. The report recommended that CPD headquarters design a methodology for determining the adequacy of field offices' compliance-monitoring procedures. HUD is still reviewing the report to determine how it will respond to the recommendations.

Headquarters staff infrequently visit the 42 field offices—making fewer than five visits in the last 2 years—according to the Director of the Field Management Division. When they do visit, headquarters staff do not have to formally report their findings. These limited visits to field offices reflect a change in headquarters' oversight in recent years. One desk officer told us that headquarters had moved away from field office monitoring in an attempt to improve relationships with the field offices—headquarters believed that these visits antagonized the field offices. However, he believed that monitoring visits helped bring headquarters closer to the problems and realities that the field offices faced. In the past, he explained, these visits always generated findings, and the field offices welcomed the feedback and suggestions for improvement that resulted. But now, he stated, he does not have enough information to assess the field offices' performance.

In addition, the desk officers' primary monitoring tool—the Grants Management Process information system—yields incomplete and inconsistent data. Consequently, headquarters staff do not know if field offices are fulfilling their program responsibilities. Our review of a Grant Management Process report on the field offices' compliance with the time requirement for approving or disapproving grantees' annual action plans showed that the field offices are interpreting the requirement differently and consequently entering different, sometimes misleading, approval dates into the system.[9] For example, one field office we visited believed that the approval date was the day the CPD representative approved the plan; another, that it was the date the field office director approved the plan; and a third, that it was the date the local Congressman notified the grantee that the grant had been approved. Moreover, the desk officer responsible for one of these offices could not explain an apparently significant number of late approvals. However, in our visit to this field office, we learned that, for many of the plans reviewed, field office staff had either incorrectly entered the data or had found deficiencies in the plans but failed to reject them while they waited a resolution of the deficiencies. On-site monitoring, or even more questioning of the field offices, would have identified this problem and allowed the headquarters staff to resolve it.

Finally, while the Grant Management Process's information system is supposed to be the headquarters staff's principal monitoring tool, it has not been useful for recording information about field offices' monitoring of grantees. At the time of our review, it did not contain a clear data entry

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[9]Field offices are required to review and approve or disapprove grantees' annual action plans within 45 days after receiving the plan. If the field office does not act on the plan within 45 days, the plan is automatically approved.

point for field offices to record the results of their monitoring activities in the database. Therefore, field offices entered these results in different locations in the system. In order to determine where field offices were recording this information, HUD hired a contractor to peruse the system and identify all recorded information that appeared to be related to monitoring. The contractor's report—covering the third and fourth quarters of fiscal year 1997—showed that the field offices were entering monitoring data in three of the system's eight data entry points, and no monitoring information was entered for more than 75 percent of the grantees that were scheduled for on-site monitoring. Without a specific area in which field offices can record monitoring activities, headquarters staff cannot be assured that they have access to all pertinent monitoring information to oversee field offices' operations.

We were told by HUD that a process for tracking on-site monitoring activities was implemented. This includes the addition of Grants Management Process screens to allow field offices to describe their on-site monitoring activities in terms of the program monitored, program issues covered, the number of days spent with the grantee, issues identified and sanctions imposed. According to HUD, this addition to the system was implemented on March 29, 1999.

Conclusions

As it is currently implemented, CPD's Grants Management System provides little assurance that four block grant programs, funded at nearly $6 billion annually, are meeting their objectives and that the funds are being managed appropriately. While the Grants Management System's approach to monitoring seems logical, it has not been effective. The field offices we visited are conducting limited on-site monitoring of grantees, although such monitoring is all the more important because of the shortcomings of IDIS. And when on-site monitoring does occur, it does not focus on the grantees who are the poorest performers, and it is not uniform or comprehensive. These problems are caused in part by a lack of uniform criteria on how to assess the level of performance for each grantee and the lack of specificity in the broad criteria that do exist to determine grantees' compliance with program requirements, although such requirements are intended to encourage the safeguarding of funds. According to the directors of the field offices, the level of on-site monitoring is also lower because of a combination of a lack of staff resources and travel funds and increased responsibilities.

While we found these problems with field offices' monitoring of grantees, we also found that the headquarters staff's oversight of the field offices was problematic. Headquarters staff rarely visit the field offices, and while the Grants Management Process information system is intended to be headquarters' staff primary tool to oversee the field offices' monitoring of grantees, at the time of our review, the information system did not contain a specific data entry point for field offices to enter data on their monitoring activities.

In all, HUD has no assurance that program requirements are being fulfilled. These requirements are critical to its goal of restoring the public trust in its management of billions of dollars in formula grant funds. Until HUD strengthens its monitoring of the financial operations of and results achieved by program grantees and its field office operations, the integrity of its formula grant programs is at risk.

Recommendations to the Secretary of Housing and Urban Development

In order to ensure that the Grants Management System identifies problems in achieving program objectives and safeguarding grant funds and protects the integrity of the block grant programs, we recommend that Secretary of Housing and Urban Development direct the Assistant Secretary for Community Planning and Development to take the following actions to improve oversight by field offices and headquarters:

- Emphasize the importance of on-site monitoring by specifying the level of grantee performance that requires on-site monitoring and the steps that should be taken in conducting such monitoring.
- Conduct analyses to determine the staffing and travel funds that may be required to better support the monitoring of grantees and direct available resources to the field offices as needed.
- Direct desk officers within the Office of Community Planning and Development at headquarters to visit their field offices to better assess how well the field offices are monitoring their grantees, to determine what problems the field offices are experiencing, and to provide technical assistance.
- Improve the Grants Management Process information system by providing guidance to the field offices to ensure that they are entering information consistently.

Agency Comments and Our Evaluation

While HUD did not comment on our recommendations, it commented that our report did not recognize its recent improvements to internal controls

and that our report focused too much on on-site monitoring. Specifically, it commented that its revamped approach to grants management ensures basic program compliance through a continuing, on-going process that includes on-site monitoring along with other elements. HUD commented that the majority of its monitoring activities can be done remotely, including review of key documents, the high risk assessment process, the grantee consultation, and the effective use of the Grants Management Process information system and IDIS. HUD also stated that it conducts on-site monitoring when conditions require it. Furthermore, HUD commented that it has distributed guidance adding more traditional risk factors to its annual comparative review and is in the process of updating its Grants Management Policy Notebook and Grants Management Process information system to better account for on-site monitoring.

We disagree that the majority of monitoring activities can be done remotely. Our report shows that the tools other than on-site monitoring are not, at this time, providing the accurate and complete information HUD needs to effectively monitor program performance. We believe the questionable quality of the data from remote monitoring sources such as IDIS increases the need for on-site monitoring at this time. Additionally, for the field offices we visited, we found that HUD did not conduct on-site visits to many of the grantees it regarded as the poorest performers in 1998. Consequently, we continue to believe that HUD's approach to managing the programs, as implemented, provides little assurance that the four grant programs are meeting their objectives and that the funds are being managed appropriately.

In a draft of this report, we proposed that HUD provide clearer and more detailed guidance on the factors that should be considered in evaluating grantee performance, with a heavier emphasis on the factors that ensure compliance with program requirements. In view of the fact that HUD has distributed guidance adding more traditional risk factors to its annual comparative review, we deleted our proposed recommendation from the report. Furthermore, GAO proposed that HUD improve the Grants Management Process information system so that field offices have a single data entry point for information on their monitoring activities. In view of the fact that on March 29, 1999 HUD added Grants Management Process screens to allow field offices to describe their monitoring activities, GAO has deleted that proposed recommendation from the report. In addition, we added information to our report to reflect HUD's new guidance on conducting its annual comparative review and its plans to update the Grants Management Policy Notebook.

Financial and Management Information System Is Not Providing the Information Needed to Manage and Monitor Grant Programs

CPD's chief monitoring tool for the Grants Management System—the Integrated Disbursement and Information System (IDIS)—does not produce the complete, accurate, and timely information that the Department should obtain from a computerized database to effectively manage and monitor almost $6 billion in block grants. The first of nine new standard integrated systems deployed by HUD to manage and monitor the programs, IDIS has major design flaws that make it difficult for grantees to enter information accurately and for field office officials and grantees to use the information to monitor performance.[10] Furthermore, CPD cannot ensure that IDIS is safe from fraud and abuse because it has not put into place the security controls needed to safeguard the formula block grant funds. CPD has not developed a security plan to control and monitor access to the system to minimize opportunities for unauthorized or inappropriate transactions. In addition, CPD has not ensured that the security officer in charge of the system has clearly defined duties and the technical expertise and staff needed to oversee the system. HUD is now developing an agencywide information system that manages all 51 grant programs for the agency, and it plans to use IDIS, along with a grants management system being developed by the Department of Health and Human Services, as the basis for the new system.

IDIS' Design Flaws Make the System Difficult to Use, and Information Is Not Always Complete, Accurate, and Timely

Although IDIS was designed to provide CPD with accurate, complete, and timely information on grantees' expenditures and program performance, these goals are not being achieved because of four significant problems. Specifically, (1) the process for establishing and maintaining grant activity information is time-consuming and cumbersome and provides ample opportunity for major data entry problems, (2) correcting major data entry problems in IDIS is difficult, (3) IDIS does not readily enable grantees to accurately report income generated by grant-funded revolving funds (program income), and (4) grantees find it difficult to produce comprehensive and timely reports using IDIS.

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[10]In 1991, HUD initiated the Financial Systems Integration effort to develop and deploy an integrated financial and management information system that would provide timely and accurate information to managers and enable HUD to properly manage its financial resources. IDIS is 1 of 9 standard integrated systems approved under the system integration effort that would replace about 100 financial and mixed systems. See, HUD Information Systems: Improved Management Practices Needed to Control Integration Cost and Schedule (GAO/AIMD-99-25, Dec. 18, 1998).

IDIS' Design Makes Establishing and Maintaining Project and Activity Accounts Unnecessarily Difficult

IDIS information is critically important in managing and monitoring grantees' performance given CPD's emphasis on remote monitoring (as discussed in ch. 2). Nevertheless, the system is so cumbersome that grantees, even though trained on IDIS, find it difficult to use to set up project and activity accounts and to maintain those accounts. For most of the grantees we visited, grantees had to enter data two or more times, found accessing and using IDIS to be time consuming, and had to work through a complicated series of steps to enter or retrieve information.

To set up project and activity accounts, grantees have to enter much of the same information into two separate HUD information systems—IDIS and HUD's Community 2020 system[11] (or its precursor, Consolidated Planning Software). These systems are not automatically linked so that entering data into one system would automatically update both systems. In addition to the errors that grantees could make simply because they have to enter the data twice, other types of errors could occur that reduce the quality of the information produced by these systems. For example, one grantee we visited numbered projects differently between the two systems; consequently, it was difficult to compare the grantees' project plan with the actual use of grant funds. While this initial set of double data entries is time-consuming and cumbersome, IDIS' design provides yet another opportunity for redundancy. For example, for some projects grantees must enter nearly exactly the same information a third time to describe the projects' activity. In one field office, the IDIS focal point told us that for 98 percent of the office's projects, data had to be entered three times.

Redundant data entry problems also occurred for most of the grantees we visited because they must enter activity information into their own automated accounting systems, as well as HUD's systems, to comply with their city's requirements. At the time of our review, CPD had not developed a reliable method to electronically transfer data between grantees' systems and IDIS. This problem is especially troublesome for states that must enter data for all small cities under their program. For example, Texas—which at the time of our review had not yet started using IDIS—has the largest state community development program—287 subrecipient cities for which it must enter data. According to HUD, as of mid-February 1999, grantees had access to a batch file transfer process, referred to as Electronic Data

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[11]HUD's Community 2020 software contains information on HUD projects, such as housing and community development projects; funding sources; performance indicators; and neighborhood locations. It combines this information with U.S. Bureau of the Census' geographic and demographic information to provide a means for community constituents to understand where and how HUD resources are being spent.

Interchange, which allows grantees to automatically extract data from their own information systems and pass it to IDIS.

Another difficulty for grantees is simply the amount of time it can take to access and use IDIS. Each time grantees enter information into IDIS, they use their desktop computers to link to a communications system, dial into IDIS, and enter a user identification number and password to obtain access to IDIS at authorized levels. We observed that it took up to 40 minutes to obtain access to IDIS. Remaining connected to IDIS is also difficult. One grantee estimates that it loses its connection to IDIS prematurely 50 percent of the time.

Once they have obtained access, IDIS' design forces grantees to work through a complicated series of steps to enter or retrieve information. The grantees must use designated function keys on the computer keyboard to take required actions at various points in this process, but the meaning of the function keys sometimes changes from screen to screen, causing some confusion and missteps for the grantees and prolonging the time it takes to enter data. In addition, a grantee must work through and exit two separate series of screens in order to enter both financial and performance data for the same activity.

Opportunities for Significant Data Entry Errors Exist, and Corrections Are Not Always Possible

When grantees enter incorrect data, IDIS does not easily allow them to rectify the errors. Five of the 11 grantees we visited reported having multiple, significant errors in IDIS data entries that they could not readily correct. To address these problems, the IDIS technical assistance staff instructed grantees to open accounts for nonexistent activities ("dummy accounts") in some instances, which in effect reverse the incorrect data. In one case, a grantee had incorrectly entered program income funds and had to open multiple dummy activity accounts and charge false amounts against them to rectify its error. Some grantees we spoke to were reluctant to create dummy accounts because these accounts would appear inaccurate or fraudulent to outside observers.

Some of these problems were so severe that they made CPD's monitoring activities through IDIS impossible. For example, one grantee had incorrectly entered all of its 1997 program year activities as occurring in the 1996 program year, thereby mixing activities for both years. To further complicate matters, this grantee had not expended all grant funds for 1996. As a result, CPD field and headquarters officials could not determine the amount of funds drawn down or the performance of program activities for

either year without actually auditing the grantee's documents. We brought this matter to CPD's and the grantee's attention in October 1998, and as of January 1999, it had still not been resolved.

At 8 of the 11 grantees we visited, we compared data shown in IDIS with the information in the grantee's files on the same activities. Although we only looked at a small number of randomly selected activities, we found a wide variety of significant data problems, ranging from a complete lack of performance data at one grantee to double-counting of accomplishments at another. For example, one grantee set up an activity to cover five types of services for senior citizens, ranging from home maintenance to transportation to a recreational center. The grantee then lumped all accomplishment data for these widely varying services together as one total number of elderly people served, even though individuals might participate in more than one of the services or be multiple users of the same service. These types of problems would not only make reports on individual grantees inaccurate but also make reports that combined data at a regional or national level meaningless or misleading.

IDIS' Flaws Preclude the Tracking of Program Income From Revolving Funds

In addition to its overall design problems, IDIS also does not enable grantees to link program income—income produced by projects they have funded or repayments into revolving loan accounts—to the activity that generated it, such as economic development loans.

HUD has instructed formula grantees not to enter program income from revolving fund programs into IDIS when they are received, as is done with other types of program income. This is because the design of IDIS does not allow grantees to segregate revolving fund income from other types of program income. IDIS operates on the assumption that all program income is depleted before grant funds are used, regardless of the type of grant activity being funded. Handling program revenues in this manner does not create a problem unless the income is associated with a revolving fund. However, CPD regulations provide grantees with specific permission to reserve program income from revolving fund programs for re-use exclusively in the revolving fund. According to a HUD official, 3,230 revolving funds were created in the Community Development Block Grant Program in 1994.[12]

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[12]The last year for which HUD could provide a complete number of revolving funds for the Community Development Block Grant Program was 1994. Twenty-one percent of the data for 1995 was missing. Subsequent years' data are stored in IDIS, and HUD officials have not yet determined how to aggregate the data on revolving funds.

To ensure that the program income from revolving funds is recycled into the revolving fund, HUD instructs grantees to only enter the income in IDIS at the moment they redistribute the money. However, HUD's recommended remedy is flawed. It requires grantees to keep two sets of books: the actual amount of the revolving fund and the amount entered into IDIS. Entering program income only when it is needed for another loan shields the true amount from CPD representatives that monitor the project remotely through IDIS. It also makes it very difficult to ensure that the grantee is meeting its regulatory requirements. For example, because CPD cannot use IDIS to determine how much program income is being generated from revolving funds and therefore what a grantee's total program income is, CPD cannot use IDIS to determine if a grantee is meeting a requirement to spend grant money in a timely manner. In addition, interest produced by revolving funds should not be recycled into the revolving fund for future use but should instead be returned to CPD, which is responsible for overseeing interest repayments—and forwarding the interest to the U.S. Treasury. Given the lack of information about revolving fund balances in IDIS, CPD will have trouble determining if a grantee is repaying interest as required. One regional CPD office, for example, received large interest repayment checks that resulted from revolving fund balances, but the office had not expected these repayments because it had been unaware of the balances. One grantee sent a check for $10,728.03 for interest earned by a revolving fund balance during a 13-month period.

IDIS Does Not Provide Timely and Accurate Information and Makes It Difficult to Produce Reports on Grantees' Use of Funds and Performance

While IDIS was intended to allow CPD to track grantees' performance on a real-time basis, it does not do so for several reasons. First, a grantee can withdraw all funds for an activity without entering any performance information for that activity, as was often the case with the grantees we visited. Most did not enter any performance data until the end of the program year, when such data were required to complete annual reports. Second, three grantees that did try to enter performance data were hindered from doing so because IDIS requires grantees to enter financial and performance data separately. Third, even when grantees enter information more frequently, the information may not be useful for tracking performance because IDIS does not identify when the performance data were entered. IDIS has only one entry field for entering performance data for the year, so that additional data entries erase previous entries.

In addition to these overall problems, IDIS does not enable grantees to always record exact information on the outcomes of activities. Specifically, IDIS provides 12 choices for describing benefits, such as the

number of youth, households, or businesses benefiting from projects. However, this list is not comprehensive enough to cover the wide range of benefits that occur in program activities. For example, one grantee had demolished four blighted buildings and to record this information in IDIS had to describe the work as four "public facilities" because there was no better option. At the field office level, then, real-time inquiries to IDIS for information on grantees' performance are unreliable.

Equally important, creating reports at the end of the program year or at any time is difficult. To create and print a report, the user—either the grantee or field office staff—must work through a series of IDIS screens—as many as 70 at one field office we visited—to begin to create a report. Problems can occur during this process. For example, at one field office, the staff could not produce any of the reports we had requested for 3 days because the IDIS software for producing reports was not functioning. In another field office, the staff could create reports for only one grantee—the first on the list of choices—and it took 24 hours to correct the problem. Furthermore, IDIS' error messages can be difficult to decipher, making the task of fixing the problem even more time-consuming. Once the report is produced in IDIS' mainframe computer, the user still has to transfer it to a desktop computer and edit it before it can be printed. Because of these difficulties, many of the grantees we visited did not produce any more reports from IDIS than were necessary for the end of program year reporting to HUD. In addition, at the time of our review, CPD had removed the function for the consolidated annual performance and evaluation report—a report all grantees must submit to HUD at the end of the program year—because IDIS was generating reports with errors. For example, we found that one grantee had entered correct information into IDIS, but the system produced a report with incorrect information. Besides reporting to HUD, grantees use the end of the year report to communicate information about the use of block grant funds to their citizens. This problem also frustrated the ability of CPD field office staff to provide headquarters with some progress reports. In January 1999, HUD was still attempting to correct the reporting capability within IDIS.

Security Controls Do Not Provide Assurance That IDIS Is Safe From Fraud and Abuse

Although grantees use IDIS to initiate the transfer of approximately $6 billion a year in grant funds, CPD has not established a secure method for setting up and maintaining access rights for using IDIS. While HUD cannot select which grantee staff should have access rights—that is the grantee's responsibility—it can take actions to ensure that designated grantee staff have appropriate levels of access and that staff who leave the grantee's employment do not retain access. To provide security against the

inappropriate use of funds, for example, grantee staff should have limited, or segregated, access to the computer system.[13] In such a case, the individual who could establish activity accounts would not also be able to approve the withdrawal of funds for those activities. However, HUD has not taken these actions to safeguard federal grants, either at headquarters or in the field offices.

Furthermore, according to the HUD official responsible for IDIS security, at a basic level the staff resources devoted to this task are strained. He explained that the thousands of requests for new user accounts, reinstatement of expired user accounts, and revocation of accounts are handled only by himself, an assistant, and one contract employee. As a result, assigning access rights to a new user takes a month or more and there are no staff to catalogue the forms requesting access, making it difficult to review original access rights or retrieve forms when necessary.

Additionally, neither the security official nor his staff review these requests for appropriateness, to determine whether the requested access rights are necessary to perform the duties assigned to the user or whether access rights ensure segregation of tasks such as setting up activities and approval of drawdowns. Instead, their main function has been to assign access rights to IDIS or to reinstate rights when passwords have expired. Even when notified by grantees that IDIS access rights should be revoked because the person with those rights is no longer employed by the grantee, the security official told us that removing the person's rights is not a high priority. Once IDIS accounts have been established, grantees have the authority to change access levels for their staff without any level of oversight by CPD. At the time of our review, CPD did not periodically produce any reports for the grantees' IDIS focal points or field office staff that showed the current access rights of the grantees' staff.

Not surprisingly, given this absence of oversight, we found multiple problems with access rights at five of the eight grantees with whom we discussed access rights. Specifically:

- Duties among authorized users were not adequately segregated at three of the grantees, so these users could both set up activity accounts and draw

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[13]According to GAO Internal Control: Standards for Internal Control in the Federal Government Exposure Draft (GAO/AIMD-98-21.3.1), page 21, "Key duties and responsibilities should be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling the related assets. To reduce the risk of error, waste, or fraud or to reduce the risk of their going undetected, no one individual should control all key aspects of a transaction or event."

down funds for those activities. Consequently, one individual could control key aspects of grant funding, increasing the opportunities for undetected error or fraud.

- IDIS user accounts for terminated employees or those on extended leave had not been revoked at two grantees. Furthermore, at one grantee, the terminated former IDIS system administrator continued to have all rights to the system, including the right to change access rights for other users.
- HUD had erroneously assigned three individuals who had never been employees of one grantee a variety of access rights to the grantee's data. In combination, the access rights for these individuals would have allowed them to set up activities as well as approve and draw funds.
- Accounts were shared or used by individuals other than the authorized individual at two grantees.

We also found a key control—passwords that cannot be easily replicated—was not in place to ensure that access to grantees' IDIS resources is restricted to authorized users. Authorized access rights are circumvented when an authorized user's account is used by another individual. We found that the combination of user account identifications and passwords to gain access to IDIS could be easily duplicated by knowledgeable users, making it hard to detect error, fraud, and abuse—including malicious tampering.

The security official's lack of basic knowledge about computer security generally, and security for IDIS in particular, presents another problem. The security officer told us that, although he is familiar with networks and desktop computers, his background does not include any security work, and he has not had any training in security methods for information systems since becoming a security officer for IDIS. He also does not have a working knowledge of the security software that contractors use to grant access and therefore cannot properly oversee them. Moreover, it is unclear whether CPD expects this official to oversee the contractor staff and what the scope of his duties should be in general. The officer could not provide us with a clearly defined position description that included his specific IDIS duties. Finally, he explained he views himself more as an "access facilitator" than a security person.

HUD's Inspector General's report on HUD's fiscal year 1998 consolidated financial statements also noted the need to improve IDIS' security. The HUD Inspector General expressed concern that until the software for access controls is fully implemented, the mainframe system on which IDIS resides will not be protected against accidental or intentional damage. The

Inspector General also reported that there is no consistent method of controlling changes in HUD's applications system software, of which IDIS is a part. This creates an unnecessary risk to the software integrity of HUD's mainframe application systems, according to HUD's Inspector General.

HUD Plans Major Changes

HUD officials told us they are in the process of developing a new Department-wide information system that manages all of its 51 grant programs. In September 1998, HUD completed a feasibility study on using existing information systems, such as IDIS, as the basis for that system. The study, performed by two HUD officials and a group of contractors, included interviews with a variety of HUD officials and other federal government officials, but none with users of IDIS. The study recommended that HUD develop a new system, called the Departmental Grants Management System, modeled on IDIS and the Grants Administration Tracking and Evaluation System, a grants management system being developed by the Department of Health and Human Services. The Grants Administration Tracking and Evaluation System, which uses a Windows environment, would provide the user interface for the Departmental Grants Management System.[14] IDIS, converted for use in the new environment, would be used as the basis for withdrawing grant funds and reporting performance.

On the basis of this recommendation, HUD is proceeding with development of the Departmental Grants Management System, which will rely on Windows and therefore be more user-friendly than the system we reviewed. In November 1998, HUD informed us that it is moving forward with the project, and HUD plans to have a pilot test of the converted IDIS in September 1999.

Conclusions

With billions of dollars and the needs of millions of people at stake in the formula grant programs, HUD has recognized that it needs effective systems for overseeing the handling of program funds and the achievement of program objectives. While we agree that a tool providing timely and accurate data about grantees' financial activities and performance would be greatly beneficial in overseeing the grant programs, the current system, IDIS, is not capable of serving as such a tool. IDIS has not provided the complete, accurate, and timely information field offices need for such monitoring. IDIS' design makes grantees' efforts unnecessarily difficult; affords multiple opportunities for incorrect data entry that grantees cannot then readily rectify; does not provide grantees with a

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[14]The current version of IDIS does not use Windows.

straightforward method for managing program income from revolving funds, which results in an inaccurate portrayal of grantees' financial activities; and does not require grantees to provide performance information when they draw down funds. In addition, without adequate security controls to prevent unauthorized access to the system, CPD cannot ensure that information in the system is reliable and that funds are safeguarded.

Although HUD is in the process of developing the Departmental Grants Management System, it plans to convert IDIS and use it as a basis for the new system, which is to be used by all 51 of HUD's grant programs. We agree that a more user-friendly system would be an improvement; but given the extent and nature of problems with IDIS, we question the use of IDIS as a model for the Department-wide system. To address the problems we identified, IDIS will need to be modified extensively or replaced, whichever is more cost effective. Of immediate concern, IDIS is not secure, and while it continues to be insecure, federal funds will not be protected appropriately.

Recommendations to the Secretary of Housing and Urban Development

Because IDIS has not proven to be a useful tool in managing grantees, we recommend that the Secretary of Housing and Urban Development direct the Assistant Secretary for Community Planning and Development to consider whether it is more cost-effective to modify IDIS or replace it. After this determination is made and before IDIS is used as the base for developing the new grants management information system for all of HUD's 51 grant programs, the problems we identified with IDIS should be corrected. HUD should ensure that the new system does not require redundant data entry, reduces the time needed to enter information, readily allows timely corrections of data, provides a straightforward method of accounting for program income from revolving funds, provides timely and accurate information on grantees' performance, and readily produces reports.

We also recommend that the Secretary—regardless of the decision on the future of IDIS—immediately take steps to ensure that access to IDIS is limited to authorized users and that those users have access levels appropriate to the duties they perform. Steps should also be taken to ensure that the security officer for IDIS is fully aware of the responsibilities that must be carried out and has the appropriate training and staff for those responsibilities.

Agency Comments and Our Evaluation

While HUD did not comment on our recommendations, it commented that our assessment of IDIS fails to consider recent efforts to improve IDIS. HUD commented that several of the weaknesses we identified did not take into account compensating factors. For instance, HUD commented that our assessment of IDIS' inability to accurately track program income from revolving funds did not account for the quarterly Federal Cash Transaction Report (SF 272), which includes information on program income. Similarly, HUD commented that limitations in IDIS security are less important because accounts automatically expire after a period of nonuse. For other weaknesses we identified, HUD pointed out recent or planned changes to IDIS that it believed will correct the problems we identified.

We continue to believe that IDIS' untimely, inaccurate, and incomplete data, as well as its inability to track program income, hinder HUD's ability to remotely monitor its grantees. While the Federal Transaction Report provides quarterly information on program income, as does IDIS, that information can be used only to track program income from nonrevolving funds. Furthermore, HUD is right that automatic account expirations resulting from nonuse have a security benefit, but the system is still vulnerable to unauthorized access until the account expires, and the account will not expire if someone continues to access the system inappropriately. We believe that HUD's recent and planned changes could, if properly implemented, improve the integrity of IDIS. Training the IDIS security officer and providing periodic reports to field offices that show the current access rights of the grantees' staff will improve security. Additionally, the data quality review effort could improve the quality of the data currently in IDIS, but future data quality may be impaired by the unresolved system design problems we noted. We also believe that the numerous additional problems in usability, accuracy, and security detailed in our report still compromise HUD's ability to ensure the integrity of the four formula block grant programs. Therefore, we did not make any changes to the recommendations.

Comments From the Department of Housing and Urban Development

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

March 26, 1999

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

Ms. Judy A. England-Joseph
Director, Housing and Community Development Issues
General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. England-Joseph:

We have reviewed the draft audit entitled "COMMUNITY DEVELOPMENT,
Weak Controls Compromise Integrity of Four HUD Grant Programs." We appreciate the
opportunity given to us to comment on the draft report.

See comment 1.

We believe the report is unduly critical of HUD's controls over the Community
Development Block Grant (CDBG) program, Emergency Shelter Grants, HOME, and
Housing Opportunities for Persons With AIDS. It appears from the content of the report
that GAO continues to view HUD and the Office of Community Planning and
Development (CPD) from the perspective of the prior decade, before HUD Reform 2020
and the large scale changes that the Administration has undertaken. There have been
significant managerial improvements and strengthened accountability in CPD, as in other
areas of HUD. Although these changes are not documented by GAO, they are moving
the agency toward better internal controls, sounder financial management, and improved
organizational structure.

The GAO report leads the reader to conclude that years of positive change have
accomplished nothing. The draft report fails to acknowledge the fact that comprehensive
management solutions have been applied to past problems. We strongly believe that
major changes should be made to this draft report in keeping with our responses listed in
Enclosure 1, and that the overall tenor of the report should reflect the positive actions
taken by CPD.

There is a central GAO position present in the report. One that we strongly
believe is incorrect. It is apparent that GAO believes an agency must conduct on-site
monitoring of its grantees, if it is to provide effective management oversight and that
nothing short of that will suffice. We have taken a more comprehensive, modernistic
approach to grantee planning and the subsequent need for monitoring of those activities.

The grantee consolidated planning effort looks at all available programs, i.e., CDBG, HOME, etc. and their legislative objectives, so that a comprehensive plan can be developed to address stated needs. Our subsequent monitoring effort, which is an on-going, continuous process, is highlighted throughout our response to the audit. It does not consist of just an on-site monitoring visit, which appears to be espoused by GAO. The process includes such elements as up-front consultations with the grantees to help prevent unnecessary future problems, annual comparative reviews, risk analyses, the effective use of CPD information systems, on-site monitoring, the remote monitoring of key documents submitted by grantees and other methods.

We hope that you will give careful consideration to the comments we have provided in Enclosure 1 and will revise your report accordingly. We will be glad to further discuss any of the items with you.

Sincerely,

Cardell Cooper
Assistant Secretary for Community
Planning and Development

Enclosure

Enclosure 1

**Response to GAO Audit Entitled "COMMUNITY DEVELOPMENT
Weak Management Controls Compromise Integrity of Four Grant
Programs"**

Now on p. 23.

Page 22 - Monitoring Under the Grants Management System (GMS) Does Not
Adequately Ensure That Grantees Are Managing Their Funds Appropriately to Achieve
Program Objectives

The GAO states that while GMS provides a logical approach to managing the four
block grant programs, CPD's monitoring under the system, of which IDIS is a critical
part, does not ensure that program objectives are being met and funds are being managed
appropriately.

See comment 2.

Response: This is not a correct statement. CPD implemented the GMS in 1996. The
GMS includes a Grants Management Process (GMP) which is a seven step windows-
based process to record actions taken with grantees at every step of the grants
management cycle. These steps includes consultation, consolidated plan, performance
based management (technical assistance and monitoring), consolidated annual
performance and evaluation reports, annual assessment, annual comparative review, and
best practices.

The system reflects HUD and CPD's emphasis on Consolidated Planning (CP) and up-
front consultation with grantees as a means of assuring basic program compliance
through early discussions about proposed grantee activities. One would certainly have to
conclude that emphasis on planning and up-front consultation would go a long way
towards helping to ensure that program objectives are met.

See comment 3.

This shift towards a more collaborative process with grantees, where eligibility issues are
more fully addressed at the initial planning stages, was intended to lessen the need for
intensive on-site monitoring. *However, it was not intended to obviate compliance
monitoring and risk assessment that the Grants Management Process (GMP) maintained
in policy and in practice.*

The intent has been to supplement on-site monitoring with remote monitoring of key
documents submitted by grantees and other key information that forms the basis for risk
assessment conducted within the context of GMP.

See comment 4.

All of the CPD field offices visited by GAO have implemented the Administration's
decentralized management approach that provides discretionary authority to each field
office to implement GMP. That means each office makes its own risk assessment
judgments about basic grantee performance and allocation of internal resources to both

compliance monitoring and consultation. The GAO has focused much of its attention on the adequacy of monitoring. CPD estimates that in FY 1997 approximately 160 intensive on-site monitoring visits were made by CPD field offices to CDBG and HOME state and entitlement grantees. This level of monitoring intensity reflects the established level of need for compliance monitoring based upon traditional risk assessment that is an essential component of GMP.

Additionally, CPD initiated a process for tracking comprehensive on-site monitoring by field offices in late 1998. Currently, contractors are in the final stages of loading a 4.0 version of the GMS for the CPD computer network. When this process is concluded by the end of March 1999 all offices will have a more detail tracking system for on-site monitoring by CPD field offices. These additional GMS screens will allow each field office to describe each on-site monitoring visit in terms of the program monitored, all program issues covered with a grantee during the visit, the number of days spent with the grantee during the visit, the findings of the monitoring, and the sanctions. This will provide all CPD program and field office management personnel with the means to track what programs are being monitored, the level of on-site monitoring being undertaken for each, and the results being achieved.

See comment 5.

Now on p. 24.

Page 23 - CPD's Implementation of the GMS Does Not Ensure That Monitoring Occurs and That the Poorest Performing Grantees are Reviewed

The GAO states that HUD's Grants Management Policy Notebook emphasizes the importance of on-site monitoring as an essential tool for determining whether program requirements are being met. They state that limited on-site monitoring reviews have been conducted. It is further stated that CPD does not have established standard criteria for determining the level of performance achieved by grantees.

Response: It is very important to note that we feel that the GAO has mistakenly applied the word "monitoring" in this particular finding and others in the audit report to conclude that monitoring is not taking place. It appears that the GAO has improperly restricted their definition of what they call "essential monitoring" to only those instances in which an actual on-site visit occurs. It is apparent, as stated in our response to the finding entitled "Significantly Reduced Resources" shown below, that it is not possible, or even efficient, to make on-site visits to all grantees.

See comment 6.

We have not limited our use of the term monitoring to only include on-site visits to the grantee. Our monitoring effort is an on-going, continuous process involving both on-site and remote elements. The majority of monitoring efforts can be performed remotely. These actions include such efforts as the annual comparative review, the high risk assessment process, the grantee consultation, and use of the GMS and the Integrated Disbursement and the Information System (IDIS).

While it is true that we have not conducted an on-site visit of every poor performer, all grantees have received some type of monitoring oversight, whether it be through an on-

2

site visit or by remote monitoring. As stated above, it has never been our intent to perform on-site monitoring at every location. Our intent is to supplement on-site monitoring with remote monitoring of key documents submitted by grantees and other key information that forms the basis for risk assessment conducted within the context of GMP.

Additionally, the report repeatedly refers to weaknesses of the Grants Management Policy Notebook. These weaknesses involve the need for more program specific guidance for monitoring visits CPD has already identified this need and is currently drafting an up-dated policy notebook, which will provide field offices with more detailed guidance for program monitoring visits.

Page 23 - Field Offices Have Conducted Limited On-Site Monitoring of Grantees and Have Not Focused on the Poorest Performing Grantees.

   The GAO reports that field offices have conducted limited on-site monitoring of grantees and have not focused on the poorest performing grantees. It was noted that only 38 of the 85 grantees designated for on-site monitoring were rated among the lowest performers, and that of those 38 only 15 were actually visited.

Response: As stated in our response to "Significantly Reduced Resources" below, we believe that as HUD Reform 2020 matures, resources in the form of staff and dollars for on-site monitoring reviews will significantly improve. However, contrary to that stated in the report, we noted that the offices visited by GAO did conduct on-site monitoring during FY 1997 that proved to be very effective. The positive results of some of these visits are listed below:

- The Boston CPD field office conducted 7 on-site monitoring visits during FY 1997. These on-site visits were the result of risk assessment of its inventory of 50 state and entitlement grantees. Their monitoring dealt with difficult enforcement issues that ended in sanctions in two instances.

- In Ft. Worth there were 7 on-site monitoring visits conducted, and in Omaha 3 of 11. A consistent pattern emerges in these offices. Just slightly less than 20 percent of all grantees are being monitored in CPD offices. That same consistency is reflected in the overall national total. The GMP is not only being implemented fully, it is being implemented consistently by all CPD field offices.

The overall pattern is not one where HUD and its CPD programs have eliminated effective program compliance and monitoring. Rather, it is a situation where CPD has initiated a new on-going, continuos approach that complements compliance monitoring with front-end consultation and uses enforcement only where and when it is required. It reaches its decisions about compliance monitoring based on traditional risk assessment

3

procedures derived in consultation with the HUD Office of Inspector General (OIG) in 1991.

In addition, there are other field offices such as Jackson, Mississippi; Anchorage, Alaska; Atlanta, Georgia and Baltimore, Maryland, as explained later in this report, that have consistently identified and made on-site visits to grantees, where deemed necessary. For these and other reasons, we believe that the GAO may have made an error in only going to five CPD field offices. We have "good" stories to tell in many of our field offices.

Now on p. 27.

Page 26 - Shift in Monitoring Emphasis.

The GAO states that the GMS system shifted the focus of the government/grantee relationship from one of monitoring grantee compliance with program requirements to a more collaborative relationship. This new relationship includes up-front assistance to help grantees achieve their objectives and identify and solve problems.

Response: This is a true statement. One that we feel has been a real positive for HUD and the grantees, rather than the implied negative. This is due to the fact that the up-front assistance approach helps to correct problems before they begin.

The decision to perform an on-site visit has to be selective to ensure that staff and resources are used efficiently and effectively. It can depend on many factors, including the results of a high risk assessment, the fact that there may be a first time grantee who needs an initial review, or an occasion where the grantee has not been visited in several years. As HUD Reform 2020 future matures and increased efficiencies are realized, we will be able to do even more on-site monitoring.

Now on p. 27.

Pages 26-27 - Significantly Reduced Resources

The GAO stated that the level of on-site monitoring is lower than it should be because of a lack of staff and travel funds.

See comment 8.

Response: Although the level of on-site monitoring may have been somewhat affected by lack of staff and travel dollars, we believe it is more the result of management decisions in the individual field offices.

It is true that the level of CPD field office employees has declined over the past several years, while the corresponding workload has increased. In the present government-wide downsizing environment that exists, we knew it was unrealistic to expect that staff ceilings in headquarters and field offices could be kept at the same levels as in past years. We also knew that there would be some initial pain involved in our transformation to a more efficient workplace. These staff reductions occurred with the expectation that HUD Reform 2020, once matured, would alleviate the much of the present workload disparities. We believe that this is now beginning to happen.

4

There are many examples of efficiencies that are now occurring as a result of the HUD Reform 2020. Staff determined to be "unplaced" due to organizational realignments have been reassigned to other offices where staffing needs exit. Just this week, our Atlanta State CPD field office had two such employees assigned to their program staff. The community builder and public trust officer functions have also started to operate as designed, which should result in certain efficiency and capacity savings.

Thus, it is reasonable to expect that over a short to medium time range CPD field staff should progressively become more efficient and effective in implementing all of the intended functions in the GMS, including extensive on-site monitoring. Full utilization of GMS, including a redesigned or replaced IDIS, coupled with significantly increased on-site monitoring conducted by less-burdened field office personnel, will become a far more effective system to assure that block grant programs and funds are being administered and managed appropriately to accomplish their intended congressional purposes.

We recognize that there was a temporary reduction in travel resources over the past few years, but this was done by design. In Fiscal Year (FY) 2000, we should be in a position to begin increasing funding to those CPD field offices that need increased levels of travel funds to performance monitoring of their high risk grantees.

Specifically, beginning in FY 1995 CPD began to realign its functions toward the goal of implementing performance based "results oriented" planning. Increased amounts of resources were directed to this effort. This was due to the fact that performance based planning by its nature places critical emphasis upon front-end collaboration with grantees in order to ensure the effective delivery of programs and services and development of effective management tools and performance measurement strategies. Consequently, some areas experienced significant decreases from previous funding levels. This was the case in FY 1995 as the field travel fund category, previously funded at $515,000 in FY 1994 was reduced to approximately $300,000 in order to provide funds to launch the development, training and implementation of two major management systems in CPD: IDIS and GMP.

In FY 1996, as these systems reached the implementation stage, CPD began to shift additional resources back towards field travel. As a result, an increase in travel funds totaling $392,000 was made available that year. In FYs 1997 and 1998, the field travel allocation increased to $415,000. For FY 1999, the field travel allocation was $412,000.

Page 28-29 - On-site Monitoring That is Conducted Is Not Uniform or Comprehensive.

The GAO states that CPD monitoring is not uniformly conducted or comprehensive in scope.

5

See comment 9.

Response: The GAO is incorrect in stating that monitoring is not uniform or comprehensive. What GAO may have meant by the heading on page 28, is that "monitoring is not uniformly comprehensive." CPD field offices do in fact implement current policy for program oversight contained in the GMP and do so in a generally uniform manner. CPD field offices initiate comprehensive on-site monitoring when conditions require it. In FY 1998, 162 such reviews were made by the field.

Monitoring, as stated in the GMP Policy Notebook, is an ongoing process that begins with up-front "consultations" with grantees about basic eligibility issues, continues through annual review of performance reports, and may ultimately result in on-site monitoring. CPD field offices are consistent in their implementation of that approach. However, GMP specifically states that individual field offices may adopt differing approaches to assure program accountability. This flexibility is intended to allow different risk analysis issues to be applied where they make the most sense. For instance, the proliferation of competitive award programs, primarily for homeless assistance, has become a significant workload in many CPD field offices. However, the workload is uneven.

Therefore, it may be reasonable for one office to place greater emphasis on its need to assure accountability for homeless assistance grants and that concern may dictate where they allocate their on-site monitoring resources. CPD field offices have the flexibility to respond to their individual program accountability concerns.

See comment 10.

GAO states that there is lack of uniformity because all CPD program participants are not monitored for the same concerns. As stated on page 28, "monitoring under the GMS targets specific aspects of grants administration in which the grantee needs improvement." That is specifically the strength of the GMP system. The ultimate result of GMP as implemented by CPD may be an extensive onsite monitoring of a CDBG or HOME grantee when consistent assessment of underlying conditions warrant it. However, the system emphasizes the need to apply resources where they are needed, and does not allow gratuitous monitoring where there is no indication that such intensive oversight is needed.

When conditions dictate, CPD field offices initiate a process of "Comprehensive On-site Monitoring." The Jackson, Mississippi field office initiated a comprehensive monitoring process of the City of Jackson that included individual site inspection, address-by-address, to determine compliance with HOME and CDBG rehabilitation regulations, and issued a lengthy monitoring report documenting regulatory concerns. The Anchorage, Alaska field office initiated a comprehensive on-site monitoring of a State of Alaska Supportive Housing (homeless) Program subrecipient. The Atlanta, Georgia field office conducted a comprehensive on-site monitoring of a City of Atlanta grantee under the Housing Opportunities for Persons With AIDS/HIV (HOPWA). The Baltimore, Maryland field office conducted a comprehensive on-site monitoring of a grantee under the Historically Black Colleges and Universities (HBCU) program and during the same Fiscal Year, 1998 monitored the HOME program for the City of Baltimore.

6

See comment 11.

The records for these comprehensive monitoring visits, and the findings and reports that resulted, were shared with GAO. It is therefore, difficult to understand how GAO can state unequivocally that on-site monitoring by CPD field offices is not comprehensive.

There are myriad CPD programs that evolved from very different legislative sources. It is not feasible to have a "uniform" monitoring approach to these programs. However, CPD does undertake, under the GMS, an approach that recognizes the need for flexibility, but only as a means of reasonably applying existing HUD resources. When conditions warrant "comprehensive" monitoring it occurs, and GAO has seen records of those monitoring incidents. Likewise, when conditions warrant a more limited focus to monitoring, CPD field offices also undertake the same procedures.

See comment 12.

It should be noted that on September 29, 1998, CPD sent a memo to the field offices that gave additional instructions that positively impact some of the issues raised by GAO in the report. It listed a number of actions related to the revision of CDBG program instructions and to some extent the grantees. A copy is included as Exhibit 1. The items addressed were as follows:

1. A revision to the instructions for the GMP that incorporated more traditional risk elements into the annual comparative review process.

2. The need for maintaining proper file documentation for monitoring of CDBG entitlement grantees.

3. Interim guidance for monitoring CDBG Special Economic Development Activities and job Creation/retention activities.

4. Guidance for reporting program income in IDIS by grantees.

We ask that you read the memorandum and make appropriate changes to your report that recognize the issuance of this additional guidance.

Now on p. 30.

Page 29 - Tools Other Than On-Site Monitoring Are Not Providing Accurate and Complete Information

GAO reports that comprehensive on-site monitoring is the only effective means of providing the information needed to ensure program compliance and proper use of the funds. It was further stated that IDIS reports, consultations, technical assistance visits, and audits performed by independent public accounting (IPA) firms are not providing accurate and complete information.

See comment 13.

Response: We take strong exception to the above statement. It leads one to believe that GAO is of the opinion that the only kind of monitoring that is effective or worthwhile is

7

on-site monitoring. That is not only unrealistic, but an improper and ineffective use of staff and travel funds.

As stated throughout this response we make exceptional use of other types of monitoring. These include up-front consultations, technical assistance reviews, and the remote monitoring of key documents submitted by grantees and other key information that forms the basis for risk assessment conducted within the context of GMP. IDIS is also improving as reflected in our reply to IDIS related concerns included in the latter part of this response.

It is surprising that GAO would state that the IPA audits are not of benefit. The audits of grantees by IPA firms have improved significantly over the past couple of years. This is the result of new guidance issued by OMB in consultation with the IG community. More comprehensive compliance supplements for use by IPA auditors have been included with OMB Circular A-133. This circular provides detailed audit program guidance for the audits of state and local governments, and non-profits, all which comprise grantees of the four grant programs included in this GAO audit.

Now on p. 31.

Page 30 - The Grants Management System Does Not Provide Uniform Criteria for Evaluating Grantee Performance.

The GAO reports that another problem for monitoring under the GMS is the latitude in evaluating the level of grantee performance. It is stated that the field offices have considerable discretion in setting their annual workplans. They review all this as a negative.

See comment 14.

Response: Contrary to the feelings of GAO, we view this latitude as a positive for the field offices and the grantees, because of special conditions affecting many of the areas. Grantee assessment is the subject of Chapter 5 in the "Grants Management Policy Notebook." The chapter begins by stating the statutory authority of both the 1990 Affordable Housing Act and the 1974 Housing and Community Development Act. The narrative in this chapter describes a uniform process for assessing the annual program submissions from State and Entitlement grantees for the HOME and CDBG programs. Those primary submissions include the Consolidated Plan (CP) and the Consolidated Annual Performance and Evaluation Report (CAPER).

The GAO concern, stated more accurately, might read that "The Grants Management System Does Not Provide Uniform Traditional Risk Analysis Criteria." Again, GAO is looking for consistency in an area where CPD has granted flexibility that necessarily reflects specialized conditions. The large caseload of homeless and other competitive award grants in offices such as Boston, Los Angeles, San Francisco, and New York, require a different risk analysis approach that many small offices such as Little Rock, where the competitive application caseload is less intense. In response to these specialized conditions, CPD has adopted an umbrella approach that allows each office to use its own risk analysis procedures. In September of FY 1998, CPD issued more

8

uniform risk analysis measures for the CDBG program. The response by CPD Field Offices at the time was that most all were still using very similar criteria although they had supplemented these criteria to address other programmatic concerns.

It is, therefore, inappropriate to state on page 36 of the report, that "CPD's Grants Management System provides little assurance that four block grant programs, funded at $6 billion annually are meeting their objectives and are being managed appropriately." GAO has made a case that traditional risk analysis criteria are not uniformly in place. CPD has moved away from such an approach from the necessity of circumstances. CPD now manages far more than four formula grant programs. It manages thousands of competitive awards under ten different programs. The circumstances are hardly uniform. The CPD program management approach is a realistic one that acknowledges these conditions. CPD Field Offices require the flexible approach that they have been granted to address the programmatic concerns of the current inventory of CPD programs. GAO's concerns stem from their focus on the four formula programs which might allow a relatively uniform management approach were they the sole responsibility of CPD. Such is not the case.

Therefore, it is incorrect to say that uniform criteria does not exist to evaluate grantee performance.

Page 31 - Reviews Have Identified Significant Financial and Performance Problems at Grantees

The GAO reports that their visits to 11 grantees and 11 reports by HUD's Inspector General, while not generalizable to all block grant programs, identified significant problems that could have been identified if field offices were conducting comprehensive on-site monitoring.

Response: Once again the GAO is proposing an unrealistic approach to identify performance problems at grantees. It is virtually impossible to perform on-site monitoring at every grantee. To compensate, you have to supplement this effort through the use of risk analysis, up-front consultations, remote monitoring, etc.

Some of the figures cited by the GAO under this particular findings are suspect and misleading. For example, it is stated that the HUD IG has questioned the expenditure of about $26 million of grant funds since HUD began using the GMS to manage the formula grants. First, that amount is a fraction (.15%) of what has been actually been made available (In FYs 1996 -1998 a total of $18 billion was made available for the four grant programs) and second, the figure that is really of true value is how much of the $26 million was determined to be ineligible and disallowed. We would conclude that it is much less than the amount that was questioned. Further the report mentions that over $2 million in improper administrative costs were charged by a grantee to prior years. We are working with the IG to reach a decision on this matter, but to date, no conclusion has been reached as to whether the amount should be disallowed. To imply that GMS is not

9

an effective management tool, based on the information included in this particular
finding, is not justified

Pages 33-35 - Little Oversight by CPD Headquarters of Field Operations

     The GAO reports that CPD headquarters is not adequately monitoring field
offices' operations.

Response: We believe that the observation by GAO that there is little oversight of field
operations by Headquarters is a gross misstatement of the facts. This may once again be

an instance where GAO feels that we must go on-site to a field office in order to provide
adequate oversight. That is not the case. Much, if not all of this function, can be
performed remotely

The basis for our belief lies in the responsibilities of the field management staff in our
headquarters' Office of Executive Services. This staff consists of desk officers who
provide regular and consistent remote oversight of the field operation. Their oversight
duties and responsibilities are listed below. Information concerning the results of their
remote monitoring are included as Exhibit 2. If you have any questions concerning this
exhibit, please call Mr. Nadab Bynum, the acting director of the Office of Executive
Sevices, on 202-708-2565, ext. 4630.

1. Review and Analyze Information in GMS

    Desk officers review and analyze information in GMP to determine if field offices are
    effectively using GMS to manage their grantees. GMP provides desk officers with
    information/reports under each step. Desk officers determine from information in
    GMP whether field offices are conducting consultations, what issues are being raised,
    which program disciplines are involved, and any actions to be taken later in order to
    assist communities in realizing their visions.

    GMP allows desk officers to develop reports on all formula grantees receiving
    consultations. Desk officers determine from GMP when consolidated annual plans
    were received, when they were reviewed and any problems or other actions taken in
    regard to plans. In addition, copies of consolidated plans are available in Headquarters
    for further review and analysis by any HUD staff.

    Desk officers determine from the performance based management step/annual work
    plan whether grantees are being monitored and provided technical assistance.
    Monitoring letters are the resource documents for determining areas monitored,
    monitoring findings, and concerns noted during on site monitoring visits.

    There is information in GMP which describes the type and nature of technical
    assistance provided either by HUD staff or through contractors. Each grantee is

10

provided an annual assessment letter of its overall performance during the year. This letter is recorded in GMP.

The Annual Comparative Reviews (ACR) rank all formula grantees in accordance with specific criteria. The Grants Management Policy Notebook includes factors field offices should use in ranking their grantees. This Policy Notebook, monitoring handbook, and various policy memoranda are used by field offices to determine where staff and other resources should be targeted in a given year. Desk Officers are responsible for reviewing ACRs to determine whether grantees have been assessed and to what extent grantees ranking within the lowest quartile of an ACR are being provided the technical assistance and monitoring necessary to prevent fraud, waste and mismanagement.

GMP includes grantees that are carrying out projects/programs that are exemplary and can be easily duplicated in other communities. The best practices recommended by field offices for recognition during the symposium are reviewed by desk officers and other HUD program officials.

The Grants Management Policy Notebook provides general information to field offices on how they should operate under the seven development and implementation steps. Volume II of this document will provide more specific guidance to field offices in carrying out the seven step process. However, field offices are still allowed flexibility in managing their workloads to accommodate regional and local differences inherent in this process.

2. Review and Analyze Annual Work Plan and Business and Operating Plans (BOP)

Desk officers are responsible for obtaining copies of annual work plans and reviewing these plans to determine what work items will be carried out for all formula and other grantees during the year. The information in annual work plans reflects the basis for travel plans and the allocation of travel dollars and other resources identified in BOPs. BOPs must contain specific information on the number of monitoring visits and the estimated costs to perform these visits.

3. Maintain Communication with CPD Field Directors

Desk officers are the "eyes and ears" of the Assistant Secretary for oversight and management of CPD's 43 field offices. Reports from Desk Officers are critical for the Deputy Assistant Secretary/Assistant Secretary in making their final assessments of CPD Directors and their staff for EPPES. Desk Officers maintain effective contact with CPD field division directors through daily telephone calls, lotus notes messages faxes and other information sources. Desk officers are aware of staffing needs, travel needs, training needs, hot issues, audits/audit resolutions, waivers, congressional notifications, and other issues affecting their field offices. Desk officers are also

11

Now on p. 39.

responsible for reporting any problems field offices are experiencing in carrying out
HUD Reform 2020 management reform efforts.

Pages 38-48 - IDIS' Design Flaws Make the System Difficult to Use and Information Is
Not Always Complete, Accurate and Timely

The GAO states that although IDIS was designed to provide CPD with accurate,
complete, and timely information on grantees' expenditures and program performance,
these goals are not being achieved because of significant flaws. GAO essentially places
the IDIS flaws into the following eight categories.

1. Process for establishing and maintaining accounts;
2. Data entry;
3. Tracking program income;
4. Timeliness and accuracy of data;
5. Reports;
6. System security; and
7. System access (Sprint-Link).

Our comments on statements/conclusions reached by GAO by category are as
follows:

1. & 2. - Process For Establishing and Maintaining Accounts /Data Entry

GAO reports on page 5: "...grantees must enter the same information multiple times—
into another of HUD's information systems; into IDIS, several times; and into the
grantees own systems for reporting to their city...." GAO also says, on page 39, "To set
up project and activity accounts, grantees have to enter much of the same information
into two separate HUD information systems---IDIS and HUD's Community 2020 system
(or its precursor, Consolidated Planning Software). These systems are not automatically
linked so that entering data into one system would automatically update both systems."

See comment 17.

Response: Grantees that use CPS/C2020 to create their Consolidated Plan (CP) send a
disk to HUD and the information is posted to IDIS. There is no requirement to key the
information to CPS/C2020 and then re-key the same information to IDIS. Changes to the
Plan after it is approved and loaded to IDIS are entered directly into IDIS and need not be
keyed into the C2020/CPS software. Half of the grantees used C2020 and provided disks
to CPD for FY 1998.

However, because CPS/C2020 use is *not* mandatory, a grantee who chooses to create the
CP without using the HUD software will need to key the CP data into IDIS. This could
be the reason why GAO, on page 39, observed that "...one grantee we visited numbered
projects differently between the two systems."

12

Grantees do not need to key the information into both their own systems and IDIS.
Information in IDIS can be downloaded into an ASCII file and the grantee can write a
program to post the information to its system. The preceding sentence presumes that
grantees are actually recording the information in their own system. CPD research during
the IDIS requirements definition process found that grantees were collecting and
recording only about 60% of the data IDIS solicits in their computerized information
systems.

GAO is correct that project level information needs to be entered again at the activity
level. In Section Five - "Projects and Activities" of the IDIS Planning and Management
Guide for States, guidance is provided for setting up the project/activity relationship in
IDIS.

States may set up a project either as a locality (e.g. state recipient) that is being funded or
as the function being carried out (e.g., infrastructure). A project that has many activities
under it has a "one-to-many" relationship. In some cases a "one-to-one" project/activity
relationship is preferred. A state may structure this relationship and record information in
the manner that best meets the state's needs.

In addition, grantees, as of mid-February, have access to a batch file transfer process,
referred to as Electronic Data Interchange or EDI, that allows them to extract data from
their own information system and pass it to IDIS.

GAO reports on page 39: "…it was difficult to compare the grantees' project plan with
the actual use of grant funds."

Response: This statement is incorrect. On the second Friday of the month, CPD makes
an extract that compares actual to planned on a project by project basis. These data are
released through the C2020 process and a related performance monitoring desk-top
mapping system.

GAO reports on page 40: "Redundant data entry problems also occurred for most of the
grantees we visited because they must enter activity information into their own automated
accounting systems to comply with the requirements of their city, as well as HUD's
systems. At the time of our review, CPD had not developed a reliable method to

electronically transfer data between grantees systems and IDIS."

Response: This is an incorrect statement. When reviewing grantee information systems,
it was found that grantees had no more than 60 percent of the IDIS data in their
information systems. There cannot be redundant data entry on the remaining 40 percent
of the items that are not part of the grantees information system. Texas, cited by GAO as
an example of a grantee facing extra data entry work, was a 60 percent state when they
were visited by the IDIS developers. Moreover, the quality, quantity, and timeliness of

13

information reported by the state to CPD for HOME's C/MIS and CDBG's PER is consistently rated as well below average.

For the items that are recorded in both, there is no reason to conclude that they should be keyed to the grantee's system and then batch transferred to IDIS. The information could be keyed to IDIS and transferred to the grantee system. The ability to create a data extract from IDIS for use in a grantee's batch transfer program was available at the time of GAO's review.

3. Program Income

Now on p. 5.

GAO reports on page 6 that IDIS does track revolving loan program income as it is received. "IDIS operates on the assumption that program income...should be used immediately for the next activity funding.... To work around this limitation, HUD instructs grantees to withhold entering information on such income until they are ready to spend the money, but this approach requires grantees to keep two sets of books and keeps HUD from knowing grantees' income from the revolving funds and from knowing if grantees are meeting a regulatory requirement to spend grant money in a timely manner."

See comment 21.

Response: GAO is overlooking the quarterly "Federal Cash Transactions Report," SF form 272. The SF 272 needs to be filed quarterly and contains the information. IDIS is being modified to track revolving loan fund program income consistent with the pertinent CDBG regulations (which did not exist when the IDIS functional requirements were defined). When this enhancement is made, HUD will propose to OMB that the requirement for the quarterly submission of SF 272's be waived for grants covered by IDIS.

See comment 22.

The GAO comment about two sets of books may mean that they have misunderstood the intention of HUD in creating IDIS. It never was intended to replace grantee accounting or other record keeping systems. IDIS is a means of requesting reimbursement and assembling the performance data HUD needs. It is not, and was never intended to be, an accounting system. IDIS should be viewed as a replacement for earlier reporting tools only.

CPD created and distributed the Activity Management and Reporting System (AMRS) for entitlement communities. The intent was that the grantee would create a plan at the beginning of the program year (known at the time as "The Final Statement of CDBG Goals and Objectives") and then record financial and reporting information day by day during the year. At the end of their program year, the grantee would be able to generate their Grantee Performance Report (GPR). The comparable system for states was the State Activity Management System (SAMS). No more than 5 states used SAMS. A much higher percentage of entitlement grantees used AMRS, but very few of them used it as a management tool. Almost without exception, they waited until a GPR was due, then they created a retroactive Final Statement, summary financial transactions, and other information needed to create the GPR.

14

CPD phased out its AMRS and SAMS software and introduced ENTERS as a
replacement product. Its sole purpose was reporting; it performed no management or
accounting function. IDIS built on the ENTERS foundation to add disbursement to the
reporting function.

Considerable time and effort has been spent on retrofitting IDIS to add functions that help
grantees reconcile their IDIS data with their accounting system information, but
converting IDIS into a grantee accounting system may be better done under the auspices
of the Departmental Grants Management System (DGMS). The DGMS is now under
development.

4. Timeliness and Accuracy of Data

GAO reports on page 6 that: "IDIS does not require grantees to enter performance
information before it will release grant funds to the grantee. A grantee can obtain all
funds for an activity without entering any performance information about it, and most of
the grantees we visited waited until the end of the program year to enter information,
when it was required to complete annual reports."

Response: A grantee can obtain money without reporting performance under LOCCS.
For example, a review of the CDBG PER data base for states will show that a great many
states have drawn funding for thousands of projects without reporting on performance.
These are state projects where the money was drawn years ago and CPD is still waiting
for accomplishment data.

The data quality review effort that CPD has initiated will remedy this perceived fault.
Data residing in the IDIS database will be corrected to re-establish both information and
financial integrity. Concerns regarding data accuracy and integrity will be addressed
through the following items:

A. Correct known data errors and invalid domain values;
B. Modify the software to prevent future occurrences;
C. Verify the data;
D. Re-establish referential integrity;
E. Review and augment current data efforts and controls; and
F. Write programs to monitor data quality on a regular basis.

Correction of all known data errors and invalid domain values are expected by April 30,
1999. Items B.-F. will be completed this year.

Even when a grantee waits until annual report submission season to load all the
performance data this is an improvement over the GPR days. When the grantee records

15

Now on p. 6.

See comment 23.

the data, it is immediately accessible. In contrast, it took nearly two years from the submission of the GPR's for a program year to be assembled into a national data base.

In addition, the strategy for IDIS data accuracy and quality review includes the distribution of the data through the C2020 network. Each month beneficiary and financial data for all IDIS projects and activities are extracted into a national file that is distributed through the C2020 process to about 3,000 citizen groups, academic institutions, and other organizations who have the non-grantee version of C2020. The C2020 Help Desk receives some questions about the data and, if they cannot answer them, refer them to IDIS or program office staff at HQ or in the field. Free access to the IDIS data and to a mapping tool for displaying it is available on the HUD Internet Home Page under the IDIS Performance Mapping Module (PMM).

The monitoring strategy also relies, in part, on the review of IDIS data using the C2020 software and the PMM. Concerned citizens look at the information and can report their concerns to the Department through several channels.

5. Reports

GAO reports on page 6: "...printing reports was difficult, requiring staff to work through a number of computer screens---as many as 70 at one field office we visited."

Response: HUD did a survey of field offices to identify what problems they were having. The survey does not support the GAO conclusion. A copy of that survey is included as Exhibit 3.

6. Security

GAO reports on page 7: "Although GAO's Standards for Internal Controls states that users should have limited or segregated, access to a computer system according to their responsibilities, GAO found instances in which particular users at grantees had wide-ranging access to both establish activity accounts and draw down funds, increasing the opportunity for undetected errors or fraud."

Response: GAO does not take into account that staff sizes are small, precluding wide segregation of duties. Separation of duties cannot be forced when the number of staff in the grantee organization is small. About 12 entitlement grantees have a one person office. The numbers with 2 and 3 person staffs are 64 and 101, respectively. In some cases, the staff work in different organizations in the city (or county) administering different programs. Even when there is more than one staff person working on a program, allowance has to be made for vacation, etc.

CPD has advised grantees that they need to separate duties as much as possible, but the system cannot enforce that decision because of the need to accommodate small organizations. Our "IDIS Planning and Management Guide for Grantees" includes a

section that outlines the basic issues a grantee needs to consider in choosing their local administrator and the issues that the administrator will need to address in setting up the users of the system. Separation of duties is one of the topics emphasized. We also cover this subject in our training sessions for grantees as they convert to the IDIS system. We make an effort to keep the grantee's current regarding this subject via refresher training and articles in out technical bulletin and newsletter.

In addition, even though someone can set up an activity and request a draw of funds, that doesn't mean they can get to the money. The money goes to the grantee's bank account, where someone else presumably writes the checks. If anything, IDIS increases security by requiring that activities be set up and the drawdowns be reported against the activity. This control did not exist previously.

Now on p. 6.

GAO reports on page 7: "GAO also found instances in which terminated employees retained access."

See comment 25.

Response: The grantee, not HUD, is the first level of responsibility for removing terminated staff. This subject is covered with grantees in IDIS training.

Now on p. 6.

GAO reports on page 7: "Another problem is the security officer's lack of knowledge about computer security; he acknowledged that … his background includes no security work and he has no pertinent training."

Response: Training for ISSD staff has been requested, but not been provided in the past due to a shortage of training funds. We will ensure that this occurs in the near future.

Now on p. 39.

GAO reports on page 38: "CPD has not developed a security plan to control and monitor access to the system to minimize opportunities for unauthorized or inappropriate transactions. Also, it has not ensured that the security officer in charge of the system has clearly defined duties and the technical expertise and staff to oversee the system."

Response: As part of the IDIS stabilization effort, we are reviewing the ADP Security process. The review is being done cooperatively with the CFO and IG and is being coordinated by a senior level staff person who transferred to the IDIS project team in June, 1998 from the CFO's office. The review team leader has many years experience working on Financial Systems Integration including ADP security issues. A contractor with ADP Security experience at the Bureau of Engraving and Printing is a team member.

Now on p. 44.

GAO reports on page 44-45: "While HUD cannot select which grantee staff should have access rights—that is the grantee's responsibility—it can take actions to ensure that designated grantee staff have appropriate levels of access and that staff who leave the

17

grantee's employment do not retain access. To provide security against inappropriate use
of funds, for example, grantee staff should have limited, or segregated access to the
computer system.

> (*Footnote cite: According to* the Standards for Internal Control in the Federal
> Government, *GAO/AIMD-98-21.3.1, exposure draft, page 21, "Key duties and
> responsibilities should be divided or segregated among different people to reduce
> the risk of error or fraud. This should include separating the responsibilities for
> authorizing transactions, processing and recording them, reviewing the
> transactions, and handling the related assets. To reduce the risk of error, waste,
> or fraud or to reduce the risk of their going undetected, no one individual should
> control all key aspects of a transaction or event.*

In such a case, the individual who could establish activity accounts would then not also
be able to approve the withdrawal of funds for those activities. However, HUD has not
taken these actions to safeguard federal grants, either at headquarters or in the field
offices.

RESPONSE: Staff size is once again a factor. The guidance that CPD has provided to
grantees is that they should separate the duties and responsibilities when practical.
However, IDIS does not preclude one person having access to all the duties and
responsibilities ("functions") allowed in IDIS. That is because some of the grantees that
CPD gives grants are quite small, and have one person handling all aspects of the
program or programs. (IDIS is the system for disbursing funds for from one to four
programs - if a grantee receives funds only for HOME, for instance, it will use IDIS just
as if it received funds for all four programs IDIS covers.) If CPD were to require that
such grantees hire additional staff for the sake of separation of duties, it would put an
undue burden on them.

IDIS does not preclude allowing more than one person having access to all duties and
responsibilities, to provide for double coverage during sickness, extended or unexpected
leave, etc.

When grantee users asked for access to particular functions of IDIS before they were
familiar with it, some asked for a minimum of functions and later learned they could not
access some part of the system - they came back and asked for more functions later.
Others asked for all functions from the beginning (possibly having learned from their
peers that was better to ask for more functions than they thought they needed until they
found out just what kind of access they really did need). In some cases, the majority of
users for a particular grantee have all the functions IDIS allows.

GAO reports on page 45: "Additionally, neither the security official nor his staff review
these requests for appropriateness, to determine whether the requested access rights are

18

See comment 27.

See comment 27.

Now on p. 45.

Now on p. 45.

See comment 27.

Now on p. 46.

See comment 28.

necessary to perform the duties assigned to the user or whether access rights ensure segregation of tasks such as setting up activities and approval of drawdowns."

Response: IDIS does not preclude assigning all rights to a single person, and will allow iterations of this to permit backup coverage. Does this finding mean that we should contact the local authorizing official (mayor, chief financial officer, chief executive officer) each time they want to assign to the same person the authority to set up activities and request and approve drawdowns?

GAO reports on page 45: "Once IDIS accounts have been established, grantees have the authority to change access levels for their staff without any level of oversight by CPD."

Response: This statement is not entirely true. Further explanation is needed, as controls are in place. Local administrators have the authority to add and subtract functions and program areas for the grantee users at that grantee location only up to the same level of access that was originally assigned to that person. They cannot exceed that level. But the level of access originally assigned varies from person to person. The level that cannot be exceeded is not the set of functions assigned by the HQ system administrator, but is the largest set of functions ever assigned that person.

GAO reports on page 45: "CPD does not produce any periodic reports for the grantees' IDIS focal points or field office staff that show the current access rights of the grantees' staff."

Response: At the time of the GAO audit, we did not have a report, but we do now. Approximately every two weeks we extract data from IDIS itself that shows by HUD field office, what each grantee user has access to and what the level of access is. We provide that to the field offices and have invited them to extract the data for their grantees and share it with them, so that grantees become aware of newly-assigned IDs, and can inform us quickly if we have assigned people to the correct grantee(s) and with appropriate level of access.

GAO reports on page 46: "IDIS user accounts for terminated employees or those on extended leave had not been revoked at two grantees. Furthermore, at one grantee, the terminated former IDIS system administrator continued to have all rights to the system, including the right to change access rights for other users."

Response: It is important to remember that there are "clocks" that limit access: At day 22 every user must change his/her password or be refused entry. At day 46, an ID that has been unused is 'suspended' and can not access IDIS unless the HQ System Administrator restores it. At six months an unused ID is dropped. People on extended

19

leave for more than 21 will need to get their password re-established, people on extended leave for more than 45 days will need to contact CPD HQ.

GAO reports on page 46: "HUD had erroneously assigned three individuals who had never been employees of one grantee a variety of access rights to the grantee's data. In combination, the access rights for these individuals would have allowed them to set up activities as well as approve and draw down funds."

Response: When we become aware that we have people assigned to the wrong grantee, we assign them to the proper grantee as soon as possible. With the new report that we send field offices, they are able to more easily identify users who are assigned to wrong grantees.

GAO reports on page 46: "Accounts were shared or used by individuals other than the authorized individual at two grantees."

Response: This is contrary to our procedures. Users are told that they are responsible for whatever is done in IDIS under their ID. They are told not to share their IDIS password with anyone.

GAO reports on page 46: "We also found a key control—passwords that cannot be easily replicated—was not in place to assure access to grantees' IDIS resources is limited to only authorized users. Authorized access rights are circumvented when an authorized user's account is used by another individual. We found that the combination of user account identifications and passwords to gain access to IDIS could be easily duplicated by knowledgeable users, making it hard to detect error, fraud, and abuse—including malicious tampering."

GAO reports on page 46: "Another problem is the security official's lack of basic knowledge about computer security generally, and security for IDIS in particular. The security officer told us that, although he is familiar with networks and desktop computers, his background does not include any security work, and he has not had any training in security methods for information systems since becoming a security officer for IDIS. He

also does not have a working knowledge of the security software that contractors use to grant access and therefore cannot properly oversee them. Moreover, it is unclear whether CPD expects this official to oversee the contractor staff and what the scope of his duties description that included his IDIS-specific duties. Finally, he explained he views himself more as an "access facilitator" than a security person."

Response: Central to this is whether CPD wants to take a current employee and convert him/her into a security person, or hire a person who already has that background. Also, there is a question whether the team who developed IDIS, and who is developing the DGMS, can address the practical aspects of the day-to-day administration of security, and whether resources can be made available to manage it. Although CPD was advised by the Information Technology development staff that the IDIS security workload required six people, there was only person assigned full time to it for more than two years.

System developers respond to requirements from program offices, but if program offices are not fully versed in security needs—before the system is developed—those requirements are never fully addressed. The security official for IDIS, lacking a background in security, was not in a position to define security requirements, but as a practical matter, accepted those defined by others.

7. System Access - Sprint-Link

GAO reports on page 5: "…in visits to grantees, GAO observed that accessing the system took as long as 40 minutes." This is supplemented on page 40 with anecdotes about a 40 minute connect time wait and premature disconnects.

Response: This problem happened on some occasions because IDIS and other government users of the ITT-Sprint network had exceeded the capacity of the system. Capacity was expanded over time. A contributing factor to the overload was that HUD was directing all grantees calls to one national 800 toll-free number. The Department did not disseminate information about the network of local telephone numbers that grantees could use. When CPD made these numbers available to grantees the access problem was greatly improved. Another problem, which may have been contributing to the incidents that GAO observed, was HUD's communications controller. There was a period when our equipment was not functioning properly and access to all HUD systems was adversely affected.

The EDI batch file transfer process helps to alleviate Sprint-Link problems directly and indirectly: transaction files are created off-line and the transmission of the file is via the Internet rather than Sprint-Link.

21

The following are GAO's comments on the Department of Housing and
Urban Development's letter dated March 26, 1999.

GAO's Comments

1. Our report recognizes that HUD has undertaken important changes to
improve program management and accountability. It notes, among other
things, that HUD has revamped its approach to managing the four formula
block grant programs by requiring grantees to develop a consolidated plan
that lays out how they will use all four programs, changed its monitoring
of grantees to reflect a collaborative relationship, and developed the
Integrated Disbursement and Information System (IDIS) so that grantees
could, among other things, enter information describing their planning and
projects and draw federal funds. Our report also concludes that HUD's
revamped system provides a logical, structured approach to managing the
formula grant programs and that HUD has recognized the need for effective
systems for overseeing the handling of program funds and the
achievement of program objectives. In addition, we added to our report a
description of management improvements made to the program. These
were reported to us by HUD after we had gathered information for this
report and after HUD had distributed additional instructions for
incorporating more traditional risk elements into the field offices' annual
comparative review process. We agree that HUD has taken a more ongoing,
continuous approach to monitoring grantees. We also believe that this
approach can provide useful insights into the problems and achievements
of program grantees. However, we question whether approaches other
than significant levels of on-site monitoring of grantees can, at this time,
ensure that program objectives are being met and that funds are being
managed appropriately given the shortcomings of IDIS and other
monitoring tools such as consultations, technical assistance visits, and
audits performed by independent public accounting firms. Moreover,
several grantees we visited and officials of two associations that represent
grantees—the National Community Development Association and the
National Association for County Community and Economic
Development—supported more on-site monitoring because monitoring
ensures that they are generally on the right track in implementing the
program. This is not to say that on-site visits should be made to every
grantee each year; but rather, we believe periodic visits to grantees
needing improvements are essential.

2. We do not believe that the other steps in the Grants Management System
provide the same level of assurance as on-site monitoring that grantees are
managing their funds appropriately to achieve program objectives. While

consultations provide a forum for discussing how well the grantee performed during the preceding program year and areas for improvement that should be factored into the next year's operations, they are not intended to be a substitute for on-site monitoring. This is because consultations sometimes involve a discussion between HUD and senior program and elected officials and sometimes are handled over the telephone. They provide no assurance that a grantee is meeting program requirements because HUD does not review the grantee's files or visit projects or subrecipients to determine compliance with program requirements. In fact, the consultation is usually based on the results of other monitoring efforts, such as on-site monitoring. During the consolidated plan review and assessment, HUD primarily reviews the plan for completeness, acceptability, and its usefulness as a future assessment tool. HUD does not review the individual projects and activities to determine whether they qualify for grant funding. In addition, our report mentions that other monitoring tools—such as IDIS reports, technical assistance visits, and audits by independent public accounting firms—do not provide the same level of assurance of program compliance and the proper use of federal funds as does on-site monitoring. Finally, the other stages of the Grants Management System—such as the annual community assessment, the annual comparative review, and best practices—are generally done at the end of the year and depend on results of on-site as well as other forms of monitoring.

3. The report does not state that the Grants Management System was intended to obviate the need for on-site monitoring. It states that the Grants Management System deemphasized compliance monitoring and promoted a more collaborative approach to grants management.

4. While CPD estimates that in fiscal year 1997 approximately 160 intensive on-site monitoring visits were made by the CPD field offices, our work focused on the performance of five field offices in fiscal year 1998—accounting for approximately 20 percent of formula grant funds—and did not reflect this level of on-site monitoring. In addition, it is not clear what HUD means by intensive on-site monitoring, since the Grants Management Policy Notebook does not specify the activities field offices are to conduct during a monitoring visit.

5. We added information to the report stating that HUD has implemented a process for tracking on-site monitoring activities, which include the addition of Grants Management Process screens to allow field offices to describe their on-site monitoring activities in terms of programs

monitored, issues covered, days spent at the grantee, issues identified, and sanctions imposed.

6. As we indicated in comment 2, we do not believe that the other steps in the Grants Management System provide as much assurance as on-site monitoring that grantees are managing their funds appropriately to achieve program objectives. In addition, we disagree that most monitoring can be done remotely at this time because of design flaws in IDIS and the shortcomings of other monitoring tools. However, we mistakenly reported that the Grants Management System does not ensure that monitoring occurs; therefore we changed our report to reflect that the Grants Management System does not ensure that on-site monitoring occurs.

7. Contrary to HUD's comment, our report did not state that the HUD offices did not conduct on-site visits to grantees in 1997. Rather, our review focused on the most recent program year—1998. For 1998, we found that the Boston Field Office conducted four monitoring visits and that six planned visits were cancelled. In addition, during 1998, the Ft. Worth Field Office conducted four monitoring visits and cancelled seven others. In total, the five field offices we visited conducted 33 on-site monitoring visits, or only 14 percent of their grantees in 1998. Moreover, our report stated that monitoring was not always targeted to the poorest performing grantees. Only 15 of the 38 poorest performing grantees were visited.

8. We agree that the reductions in on-site monitoring are based on management decisions by the directors of the five field offices we visited, but as our report indicates, these decisions were necessary because of reductions in resources and increased workload. Furthermore, as discussed in our report, the five field offices we visited cancelled 52 on-site monitoring visits in 1998 because of inadequate time, staff, and budget resources, according to the directors of those offices.

9. HUD states that its field offices initiate comprehensive on-site monitoring when conditions require, and in fiscal year 1998, these offices made 162 comprehensive on-site monitoring visits. We disagree that field offices initiate comprehensive on-site monitoring when conditions require. As our report stated, at the five field offices we visited, only 38 of the 85 grantees that were scheduled for on-site monitoring visits were among the poorest performers, and only 15 of these grantees were actually visited. It should also be noted that the 162 on-site monitoring visits that HUD said were done represent a small portion of the approximately 1,000 local and state grantees. Furthermore, although the Grants Management Policy Notebook

does not define what constitutes comprehensive on-site monitoring, our review of the five field offices, representing 20 percent of all grant funds, showed that of the 33 on-site visits made in 1998 only 1 was considered comprehensive—as defined by the five field office directors.

10. The lack of specific monitoring guidance in the Grants Management Policy Notebook allows for significant variation in the way HUD field offices oversee almost $6 billion in formula grant funds. As our report stated, prior to the Grants Management System, field offices were required to follow the CPD Monitoring Handbook. This handbook specified the level of monitoring warranted for high-risk grantees and the scope and intensity of the on-site review.

11. HUD indicated that its field offices had conducted "Comprehensive On-site Monitoring" at several grantees and the results of these visits were shared with us. The results of the 33 on-site visits conducted by the five HUD field offices we visited were the only on-site monitoring information provided to us. We could not determine whether these were comprehensive visits.

12. We changed our report to reflect that on September 29, 1998, HUD promulgated risk analysis guidance that included traditional risk factors, such as unresolved audit or monitoring findings, subrecipient activity, the amount of program income received by the grantee, the size of the grant, staff turnover, and the last date of monitoring.

13. Our report states that on-site monitoring is an essential tool to ensuring that program objectives are being met and funds are being managed appropriately because of the shortcomings of IDIS and other monitoring tools, such as consultations, technical assistance visits, and audits by independent public accounting firms. HUD's program guidance also indicates that on-site monitoring is a critical tool to determine whether program requirements are being met. In addition, we did not state that independent audits by public accounting firms do not provide benefits. Our report states that HUD headquarters and field officials do not believe that independent audits by public accounting firms produce enough detailed program performance information. Our report also states that these audits are not intended to provide detailed performance information but are designed to advise federal and grantee officials and program managers on whether an organization's financial statements are fairly presented and provide reasonable assurance that federal financial

assistance programs are managed in accordance with applicable laws and regulations.

14. We believe that standard criteria are necessary to ensure that the riskiest grantees are identified for on-site monitoring, and once this occurs, to establish and carry out a monitoring schedule in accordance with the resources and workload available. The current criteria provide no assurance that field offices will consistently emphasize factors that will target grantees on the basis of compliance with internal controls designed to protect against fraud and abuse.

15. HUD is right that visiting every grantee would be unrealistic. However, our report does not state that every grantee should receive an on-site monitoring visit. In fact, our recommendation asks HUD to emphasize the importance of on-site monitoring by specifying the level of grantee performance that requires on-site monitoring.

Furthermore, HUD pointed out that $26 million in Inspector General audit findings represents only a fraction of the amount of grant funds that had been made available between fiscal years 1996 and 1998. While this is true, we were told by the Assistant Inspector General for Audits that the Inspector General does not generally audit CPD programs because the flexible nature of the block grant programs make almost any activity eligible for program funding. Therefore, the Inspector General concentrates its efforts on programs that produce a greater return from the resources invested. In addition, while we agree that the amount that will ultimately be disallowed may be less than what was questioned, it does not negate the fact that the Inspector General found significant problems to question $26 million in grant funding.

16. The Grants Management Process—the CPD headquarters desk officers' primary monitoring tool—produces inconsistent and inaccurate data, as outlined in our report. Therefore, periodic visits to field offices are essential to ensuring that they are adequately accomplishing their annual work plans. In addition, two field office directors told us that the level of understanding by desk officers of field office operations is questionable. One director said that he gets very little feedback from his desk officer. Another said that headquarters has unrealistic expectations of the field office because his desk officer does not understand his workload and how time consuming it is. We received desk officer file documents as an exhibit with HUD's official comments on our report. After a review of these documents, we continue to believe that CPD headquarters is not adequately

monitoring field office operations. Specifically, the majority of the documents provided by HUD did not concern the field offices we visited; many of the documents were prepared after our work was completed and we had discussed our findings with CPD headquarters; the documents included many e-mail messages that did not appear to be related to monitoring; the documents provided little support for field office performance evaluations; and for all but one desk officer's files, there was little evidence of the use of the Grants Management Process information system for field office remote monitoring. Additionally, in the one complete file for a field office we visited, the desk officer concluded that an end of the year assessment for that field office could not be done efficiently without an on-site visit.

17. We agree that the grantees that use CPS/Community 2020 to create their consolidated plans can send a disk to HUD for conversion into IDIS. However, a field office IDIS focal point and several grantees told us that the conversion process was disappointing because only four project fields are converted. Therefore, the majority of the data have to be reentered manually. Additionally, converting Community 2020 data to IDIS takes time, and conversion errors occur. For these reasons, one HUD field office we visited recommended that its grantees not send Community 2020 disks to HUD for conversion into IDIS.

18. HUD indicates that grantees can download IDIS information into an ASCII file (a text file with no formatting information) and write a program to post the information to their systems. However, HUD provided no evidence that grantees have the technical expertise to do this. In addition, HUD indicates that grantees are recording only about 60 percent of the data IDIS requires in their own computer systems. We believe that the burden on the grantees is significant. For example, one grantee initially spent 8 weeks manually inputting its data into IDIS. Another grantee told us that double entries between its local accounting system and IDIS are wasteful and lead to mistakes.

19. HUD's comment appears to state that CPD has a monthly report that compares actual to planned project information. HUD did not provide this report during our review, and we have not had a chance to evaluate it. Nevertheless, our report stated that one grantee we visited numbered projects differently between Community 2020 and IDIS; consequently it was difficult to compare the grantee's project plan with the actual use of grant funds. We do not know whether CPD's report addresses this problem.

20. See comments 17 and 18.

21. We changed our report to clarify that HUD cannot use IDIS to determine how much program income is being generated from revolving funds, rather than stating that HUD has no way of knowing how much program income is being generated from revolving funds. However, we disagree that the "Federal Cash Transactions Report," SF 272, can be used to track program income from revolving funds. Like IDIS, it can only be used to track program income from nonrevolving funds. In addition, on March 29, 1999, the HUD Inspector General reported on HUD's fiscal year 1998 financial statements, stating that grantees were not submitting the quarterly cash transaction report. This problem was accentuated by the fact that, because of the way IDIS processes program income, some grantees were not entering this information. As a result, CPD staff did not know how much program income was being produced by grantees who were not entering this information into IDIS and did not submit the report.

22. Our report does not indicate that IDIS was intended to replace grantees' accounting systems.

23. While a positive step to improving the data already in IDIS, the data quality review effort HUD describes will not alter grantees' ability to draw funds without entering performance data.

24. We disagree. We believe that the survey results support our finding that it is difficult and cumbersome to use the IDIS reporting functions. For example, the survey results show that the reports module is not user-friendly. Specifically, the survey report states, "The process to print/download reports is considered cumbersome, time-consuming and not user-friendly."

25. We agree that the grantee has the first level of responsibility for notifying HUD to remove IDIS access rights for former grantee employees. However, as our report indicates, HUD has not placed a high priority on fulfilling grantees' requests to remove IDIS access rights for former employees. Also see comment 28.

26. While we agree that it is not practical to segregate responsibilities for a small number of grantees, this does not justify HUD's lack of action to ensure that grantee staff members have limited or segregated access to IDIS.

27. Our report does not indicate that HUD should contact the local authorizing official prior to assigning access rights. Our report states that at the time of our review, HUD had not produced any periodic reports for grantee and field office staff that showed the current access rights of grantee staff.

28. While we agree that automatic suspensions are beneficial, the system is still susceptible to unauthorized access until the automatic suspension takes place. Additionally, access to the system will not automatically expire if someone continues to use the account. According to the Federal Information Processing Standards Publication Standards for Password Usage (FIPS PUB 112), 3.3.4, "Passwords shall be deleted or replaced with an invalid password as quickly as possible but at least within 3 working days from the time that an owner is no longer an authorized ADP system user or any one of a set of owners is no longer authorized access to the data."

29. We have agreed with HUD not to print this comment and not respond to it because of concerns over IDIS security.

30. We believe that security requirements should be developed by staff who have a basic knowledge of computer security issues. Guidance for establishing appropriate security is given in the Federal Information Processing Standards Publication Guidelines for Security of Computer Applications (FIPS PUB 73).

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