



Highlights of [GAO-03-975](#), a report to Chairs, House Subcommittee on Oversight and Investigations; House Subcommittee on Housing and Community Opportunity, Committee on Financial Services

Why GAO Did This Study

Congress recognized the importance of building the capacity of community development organizations by passing Section 4 of the HUD Demonstration Act of 1993. The act authorized the Department of Housing and Urban Development (HUD) to partner with several national nonprofit organizations that provide funding to these community groups for such things as training, staff salaries, office equipment and supplies, and management information systems. In 2002, HUD provided \$31 million for capacity-building activities. To help Congress with its oversight of Section 4, we reviewed the evolution and use of Section 4 funding, the importance of Section 4 funding to private sector involvement, and the management controls and measurements that are in place to assess Section 4.

What GAO Recommends

GAO recommends that HUD take steps to recover the grant funds one Section 4 grantee used to cover a bad debt.

www.gao.gov/cgi-bin/getrpt?GAO-03-975.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas McCool at (202) 512-8678 or mccoolt@gao.gov.

CAPACITY BUILDING

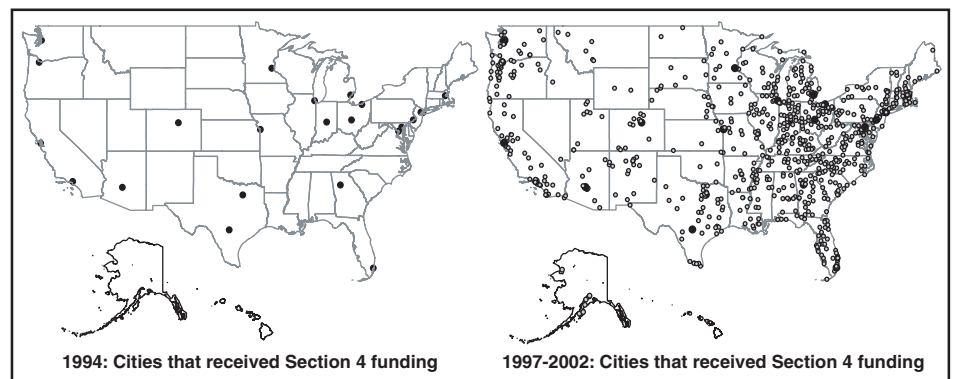
Section 4 Program Has Expanded and Evolved

What GAO Found

We found that Section 4 has evolved from a narrowly targeted initiative that focused on providing funding for capacity building in 23 urban areas to a broader program that funds groups and activities in urban, rural, and tribal areas nationwide. The four organizations (grantees) use Section 4 funding to provide a variety of capacity-building support to their subrecipients. These subrecipients are nonprofit organizations that undertake locally targeted initiatives in areas such as economic development, low-income housing construction, and job training. The Section 4 funds that the grantees receive help leverage private sector funding and in-kind contributions such as land and equipment, pro bono legal services, office space, and voluntary labor. Since the four grantees became eligible for Section 4 funding, they have leveraged nearly \$800 million in cash and in-kind contributions from the private sector.

HUD is responsible for ensuring that Section 4 funds are used according to federal law and regulations and that grantees are utilizing funds efficiently and effectively. However, HUD relies on grantees to oversee their subrecipients. The grantees had far-reaching organizational structures and processes in place to monitor and control their subrecipients. But we found that one of the seven subrecipients we tested for monitoring and control procedures had reimbursed a subrecipient for an item that was prohibited by the Office of Management and Budget (OMB). While HUD has the overall responsibility to prevent such internal control failures, the cost-effectiveness of adding additional federal controls must be weighed against the amount of the federal dollars involved. We believe that as long as HUD and the grantees remain vigilant, additional controls are not necessary at this time. HUD is taking steps to develop a framework for assessing the effectiveness of its technical assistance programs and will take part in an OMB Program Assessment Rating Tool review.

Section 4 Geographical Expansion from 1994 to 2002



Source: GAO analysis of NCDI, LISC, Enterprise, HFHI, YBUSA data.