




**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**THE DEPUTY SECRETARY**  
WASHINGTON, DC 20410-0050

February 4, 2011

MEMORANDUM FOR: Michael P. Stephens, Acting Inspector General, G  
FROM: Ron Sims, SD   
SUBJECT: Audit Report 2008-FW-001:  
HUD's Community Development Block Grant Set-Aside for  
Colonias Was Not Used for Its Intended Purposes

This memorandum is in response to the above-referenced July 29, 2008, Office of Inspector General (OIG) Audit Report and the resolution of the Report's outstanding audit recommendations. In response to the OIG's audit recommendations, the Office of Community Planning and Development (CPD) drafted proposed guidance on the administration of the Community Development Block Grant (CDBG) Colonias Set-Aside to ensure compliance with the statutory definition of "colonia" and to provide assistance with developing distribution plans that addressed the priority needs of the colonias. The OIG non concurred on the proposed guidance stating that CPD misinterpreted the CDBG Colonias Set-Aside statute when it provided that: (1) CDBG set-aside funds can be used on any CDBG-eligible activity rather than only water, sewer, or housing projects and (2) the statute does not require HUD to provide clarifying guidance on the statutory definition of "colonia." CPD asserts that its interpretations are legally supportable and reasonable and thus, these issues are policy matters outside of OIG's purview. The General Counsel provided a memorandum supporting CPD's interpretation of the statute.

I agree with CPD's interpretation of the CDBG Colonias statute and its position on the matter. However, to address the significant policy concerns at issue, CPD has agreed to revise the guidance to advise states that they should: (1) Provide a funding priority under the Colonias Set-Aside for basic infrastructure (water and wastewater treatment) and housing activities and (2) only fund other activities if they are undertaken in conjunction with funding of basic infrastructure or housing activities. This agreement will be reflected in CPD's revised notice providing guidance on the administration of the CDBG Colonias Set-Aide.

Please feel free to contact me if you have any questions.

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Date		<i>[Signature]</i>	<i>[Signature]</i> 2-4-11	<i>[Signature]</i>	CEM	2-4-11