

May 2010

# HOMELESSNESS

## Information on Administrative Costs for HUD's Emergency Shelter Grants Program



GAO

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Highlights of [GAO-10-491](#), a report to congressional committees

## Why GAO Did This Study

The Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009 (HEARTH Act) directed GAO to study the appropriate administrative costs of the U.S. Department of Housing and Urban Development (HUD) Emergency Shelter Grants Program (ESG)—a widely used, formula-based program that supports services to persons experiencing homelessness. This report discusses (1) for selected recipients, the types of administrative activities performed and administrative costs incurred under the ESG program, and the extent to which grant proceeds cover these administrative costs; (2) how the ESG program's allowance for administrative costs compares with administrative cost allowances for selected other targeted federal homeless grant programs, plus selected other HUD formula-based grant programs; and (3) how the nature or amount of administrative costs might be different under changes Congress made to the ESG program in the HEARTH Act that expand the types of activities that may be funded. To address these issues, GAO reviewed relevant policies and documents, interviewed officials of HUD and other agencies, made site visits in four states, reviewed HUD and other available standards on eligible administrative costs for federal grants, and reviewed cost allowances for homeless programs of the Departments of Education, Labor, and Health and Human Services. GAO makes no recommendations in this report.

View [GAO-10-491](#) or [key components](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or [cackleya@gao.gov](mailto:cackleya@gao.gov).

## HOMELESSNESS

### Information on Administrative Costs for HUD's Emergency Shelter Grants Program

#### What GAO Found

ESG grantees and subgrantees we visited in four states performed a range of administrative activities, but the ESG program's allowance for administrative costs—currently 5 percent—did not fully cover the cost of these activities. Grantees generally focused their administrative activities on awarding subgrants and monitoring subgrantee performance, while subgrantees focused their administrative activities on operating their programs and reporting results to their respective grantees. To cover unfunded ESG administrative costs, grantees and subgrantees told us they used other sources, such as other grants or private donations. They added that these estimated unfunded administrative costs, which averaged 13.2 percent and ranged from amounts equal to 2.5 percent to 56 percent of their ESG grant proceeds, diminished their ability to support other program activities. In addition, we found minimal standards available for evaluating the appropriateness of ESG administrative costs, and grantees and subgrantees in the states we visited monitored ESG administrative costs in varying levels of detail.

The funding and treatment of administrative costs varied across other targeted federal homeless grant programs we reviewed. For example, the maximum administrative allowance for grantees ranged from 4 percent to 50 percent for programs with such a provision; the ESG program's current 5 percent allowance is thus one of the lower amounts provided. Programs with similar funding structures varied in their requirements for grantees to share their administrative allowance with subgrantees; the ESG program generally does not require grantees to share their allowance. In addition, none of the programs we reviewed offered comprehensive direction on eligible and ineligible administrative activities. Overall, these and other varying program features make it difficult to make direct comparisons between the administrative cost provisions of the ESG program and those of other targeted federal homeless grant programs.

A number of ESG grantees and subgrantees we visited told us they expect the new ESG activities authorized by the HEARTH Act will result in different kinds of administrative activities that in many cases will be more costly. They cited client screening and eligibility verification, technical assistance to subgrantees, number of grant applicants, and facility management and collaboration with third parties as among areas where administrative costs may increase. Although the HEARTH Act makes significant changes, including increasing the administrative cost allowance to 7.5 percent, it remains unclear when new program activities might be implemented. Uncertainty over how and when the new ESG program might be implemented, plus variation in administrative activities under the current program, complicate any attempt to determine the appropriate size of the ESG administrative allowance.

HUD told us in comments on a draft of this report that some subgrantees appear to be confusing program and administrative costs, thus potentially overstating any need for a larger administrative allowance.

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# Contents

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<b>Letter</b>		<b>1</b>
	Background	3
	Grantees and Subgrantees We Visited Reported a Range of Administrative Activities Whose Costs Generally Were Not Fully Covered by the ESG Allowance	9
	Funding and Treatment of Administrative Costs Varied Across Selected Federal Grant Programs	23
	Some ESG Recipients Expect the Nature of Administrative Costs to Change and the Amount to Increase under New Activities Authorized by the HEARTH Act	27
	Agency Comments and Our Evaluation	29
<b>Appendix I</b>	<b>Scope and Methodology</b>	<b>32</b>
<b>Appendix II</b>	<b>GAO Contact and Staff Acknowledgments</b>	<b>35</b>
<b>Tables</b>		
	Table 1: Retention of ESG Administrative Allowance by Selected Grantees	11
	Table 2: Grantee Administrative Allowance for Selected HUD Formula Grant Programs	27
	Table 3: ESG Grantee Summary for States Visited, Fiscal Year 2009	32
<b>Figures</b>		
	Figure 1: The Distribution of ESG Grants by State, Fiscal Year 2009	5
	Figure 2: How ESG Grants Fund Homeless Services	7
	Figure 3: ESG Grantee Administrative Activities by Major Categories	10
	Figure 4: ESG Subgrantee Administrative Activities by Major Categories	12
	Figure 5: Estimated Unfunded ESG Administrative Costs for Grantees and Subgrantees in Selected States	14
	Figure 6: ESG Administrative Cost Provisions Compared to Selected Other Federal Homeless Programs	24

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## Abbreviations

CDBG	Community Development Block Grant
ESG	Emergency Shelter Grants Program
HEARTH Act	Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget

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Washington, DC 20548

May 20, 2010

### Congressional Committees

Against a backdrop of economic recession, an estimated 1.2 million to 2 million people used an emergency shelter or transitional housing program during the 12-month period ending September 30, 2008, according to a July 2009 report to Congress on homelessness.<sup>1</sup> That report also provided some early indications of how the sheltered homeless population might be changing as a result of the recent economic downturn. For example, the report noted that family homelessness, considered to be more sensitive to economic conditions than homelessness among individuals, has increased. In addition, the report noted that the number of those who reported living with family or friends the night before entering a homeless residential facility has increased, which could also reflect the economic downturn, because people tend to use all alternative housing options before resorting to the shelter system. Finally, the report noted that a larger percentage of sheltered homeless persons have come from stable accommodations prior to entering a facility.

The U.S. Department of Housing and Urban Development (HUD) Emergency Shelter Grants Program (ESG), a widely used federal program to address homelessness, provides funds for emergency shelters to help people achieve independent living. Under the program, HUD makes grants to states, large cities, urban counties, and U.S. territories. With the exception of states, these direct recipients, or “grantees,” may carry out ESG projects through their own departments or agencies, or may make the funds available in the form of subgrants to nonprofit organizations that carry out ESG projects. State grantees, however, cannot use their ESG grant funds to conduct their own program activities and instead must subgrant funds to nonprofit organizations or local governments to carry out ESG projects.<sup>2</sup> Eligible ESG projects include the renovation, rehabilitation, or construction of buildings to be used as emergency shelters; operation of the facilities; essential supportive services (including

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<sup>1</sup>See *The 2008 Annual Homeless Assessment Report to Congress*, U.S. Department of Housing and Urban Development, Office of Community Planning and Development, July 2009.

<sup>2</sup>Grantees that make subgrants are responsible for ensuring that subgrantees comply with ESG program requirements.

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those related to employment, health, drug abuse, or education); and homeless prevention.

The Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009 (HEARTH Act) made significant changes to the ESG program.<sup>3</sup> Among other things, the act, which renamed the program the Emergency Solutions Grants Program, increased the range of eligible homeless prevention and re-housing activities, including short- or medium-term rental assistance and housing stabilization services. In general, according to HUD, the act shifted program emphasis from providing shelter to fostering housing stability. The act also increased the percentage of grant funds that grantees may use for administrative purposes from 5 percent to a maximum of 7.5 percent. Finally, the HEARTH Act directed GAO to conduct a study of the appropriate administrative costs for the ESG program.

In this report, we provide information about ESG program administrative costs, based in significant part on our work at selected grantees and subgrantees in four states. More specifically, this report discusses (1) for selected recipients, the types of administrative activities performed and administrative costs incurred under the ESG program, and the extent to which grant proceeds cover these administrative costs; (2) how the ESG program's allowance for administrative costs compares with administrative cost allowances for selected other targeted federal homeless grant programs, plus selected other HUD formula-based grant programs; and (3) how the nature or amount of administrative costs might be different under the changes Congress made to the ESG program in the HEARTH Act.

To address these issues, we reviewed the ESG program's authorizing legislation, objectives, and implementing regulations. In addition, we interviewed HUD officials knowledgeable about the ESG program. We made site visits to four states—California, Georgia, Michigan, and Pennsylvania—where we interviewed selected ESG grantees and subgrantees and obtained estimates of their ESG administrative costs. We selected these states based on geographic balance and the total amount of funding HUD provided to state grantees for fiscal year 2009. We also reviewed available sources, including from HUD, regarding eligible

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<sup>3</sup>The HEARTH Act is contained in Division B of Public Law 111-22. Pub. L. No. 111-22 § 1001, et seq., 123 Stat. 1632 (May 20, 2009).

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administrative costs for federal grants. Further, we reviewed the administrative cost allowances for homeless grant programs administered by the Departments of Labor, Education, and Health and Human Services, and we interviewed officials from these departments knowledgeable about the programs. Finally, we reviewed the HEARTH Act changes to the ESG program and obtained the perspectives of HUD officials, 34 grantees and subgrantees we visited, various nonprofit organizations that advocate for people experiencing homelessness, and others regarding how these changes might affect the nature or amount of administrative costs for the ESG program. Appendix I provides a more detailed description of our scope and methodology.

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

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## Background

According to HUD, the ESG program was designed to be the first step in a continuum of assistance to prevent homelessness and to enable individuals and families experiencing homelessness to move toward independent living.<sup>4</sup> More specifically, the program objectives were to increase the number and quality of emergency shelters for individuals and families experiencing homelessness, to operate these facilities and provide essential social services, and to help prevent homelessness. The ESG program is targeted at persons experiencing homelessness.<sup>5</sup> It was originally established by the Homeless Housing Act of 1986, in response to the growing issue of homelessness among men, women, and children in

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<sup>4</sup>In this report, we use “ESG” primarily to refer to the current version of the program, because the new Emergency Solutions Grants Program, as authorized by the HEARTH Act, has not yet been implemented. Where appropriate, we distinguish between the current program and the new program.

<sup>5</sup>Targeted homeless programs such as ESG are designed to specifically assist people experiencing homelessness; homeless persons may also obtain assistance from mainstream programs, which are not specifically designed to assist them. Examples of such mainstream programs include Medicaid, HUD’s Section 8 Rental Voucher Program, and employment and training activities provided under the Workforce Investment Act. See, for example, GAO, *Homelessness: Barriers to Using Mainstream Programs*, [GAO/RCED-00-184](#) (Washington, D.C.: July 6, 2000).

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the United States.<sup>6</sup> In general, the ESG program uses the Community Development Block Grant (CDBG) formula as the basis for allocating funds to states, metropolitan cities, and urban counties.<sup>7</sup> The CDBG formula uses factors reflecting community need, including poverty, population, housing overcrowding, and age of housing. According to HUD, in fiscal year 2009, there were 360 ESG grantees.<sup>8</sup>

For fiscal year 2009, HUD awarded \$160 million in ESG funding to grantees. Figure 1 shows the total amount of ESG funds received by grantees, by state, for fiscal year 2009.

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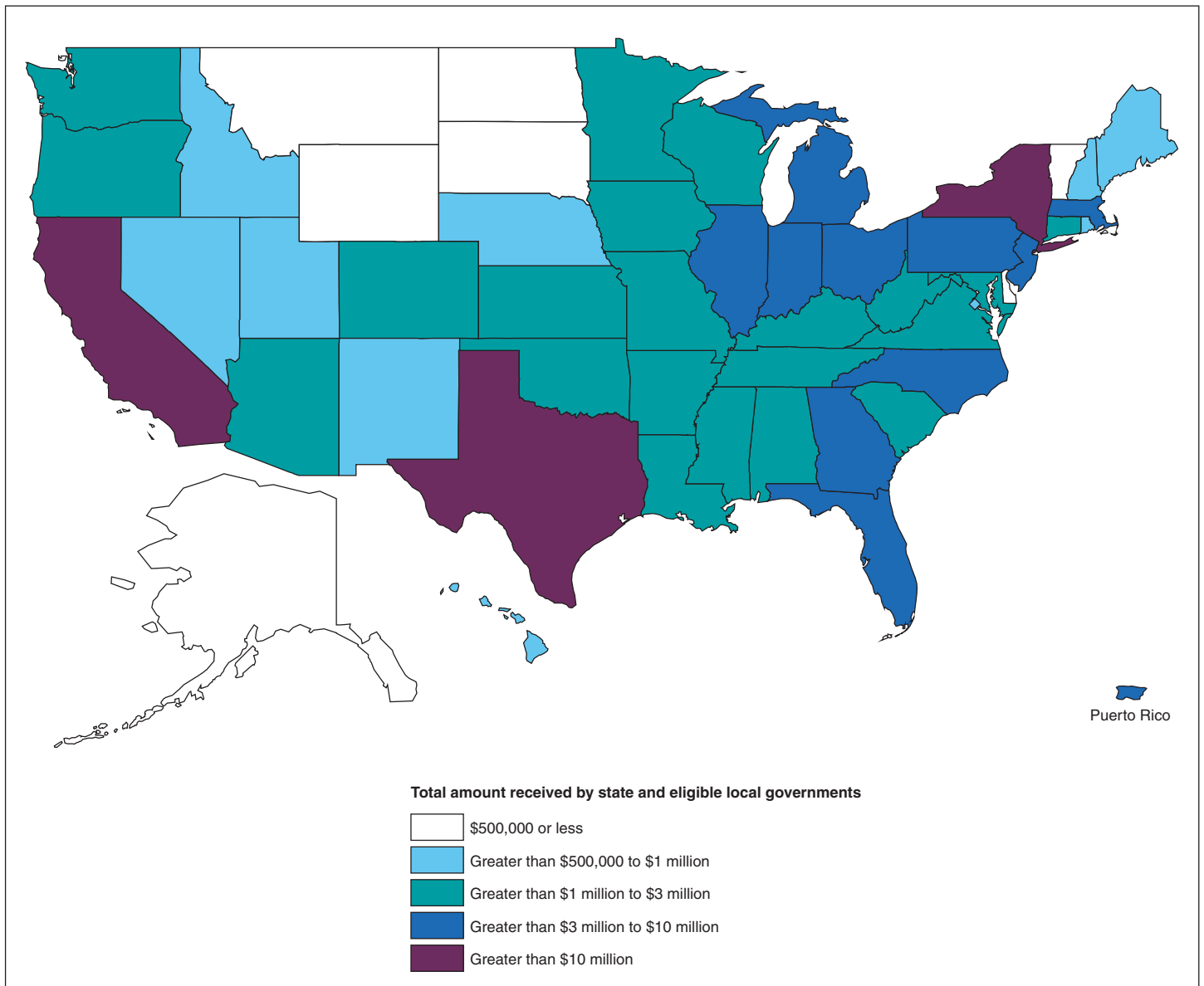
<sup>6</sup>The Homeless Housing Act of 1986 was enacted at Pub. L. No. 99-500 § 101(g), 100 Stat. 1783 (Oct. 18, 1986) and Pub. L. No. 99-591 § 101(g), 100 Stat. 3341 (Oct 30, 1986). In 1987, the ESG program was incorporated into Subtitle B of Title IV of the Stewart B. McKinney Homeless Assistance Act. Pub. L. No. 100-371 (July 22, 1987).

<sup>7</sup>For purposes of the CDBG formula, a metropolitan city is a city within a metropolitan area that is the central city of the area, as defined by the Office of Management and Budget (OMB), or any other city within a metropolitan area that has a population of 50,000 or more. An urban county is, generally, one meeting specified population or density requirements. 24 C.F.R. § 576.3; see Housing and Community Development Act of 1974, as amended, 42 U.S.C. § 5302(a). Prior to the CDBG-based allocation, HUD first sets aside 0.2 percent of the annual appropriation for allocation among U.S. territories.

<sup>8</sup>According to HUD, the grantees were: the 50 states, the District of Columbia, Puerto Rico, 202 metropolitan cities, 102 urban counties, and the U.S. territories of Guam, Virgin Islands, American Samoa, and the Northern Mariana Islands.



**Figure 1: The Distribution of ESG Grants by State, Fiscal Year 2009**



Source: GAO analysis of HUD data; map (MapInfo).

Notes: Amounts shown are for federal ESG grants only. The U.S. territories of Guam, Virgin Islands, American Samoa, and Northern Mariana Islands received \$320,000 combined.

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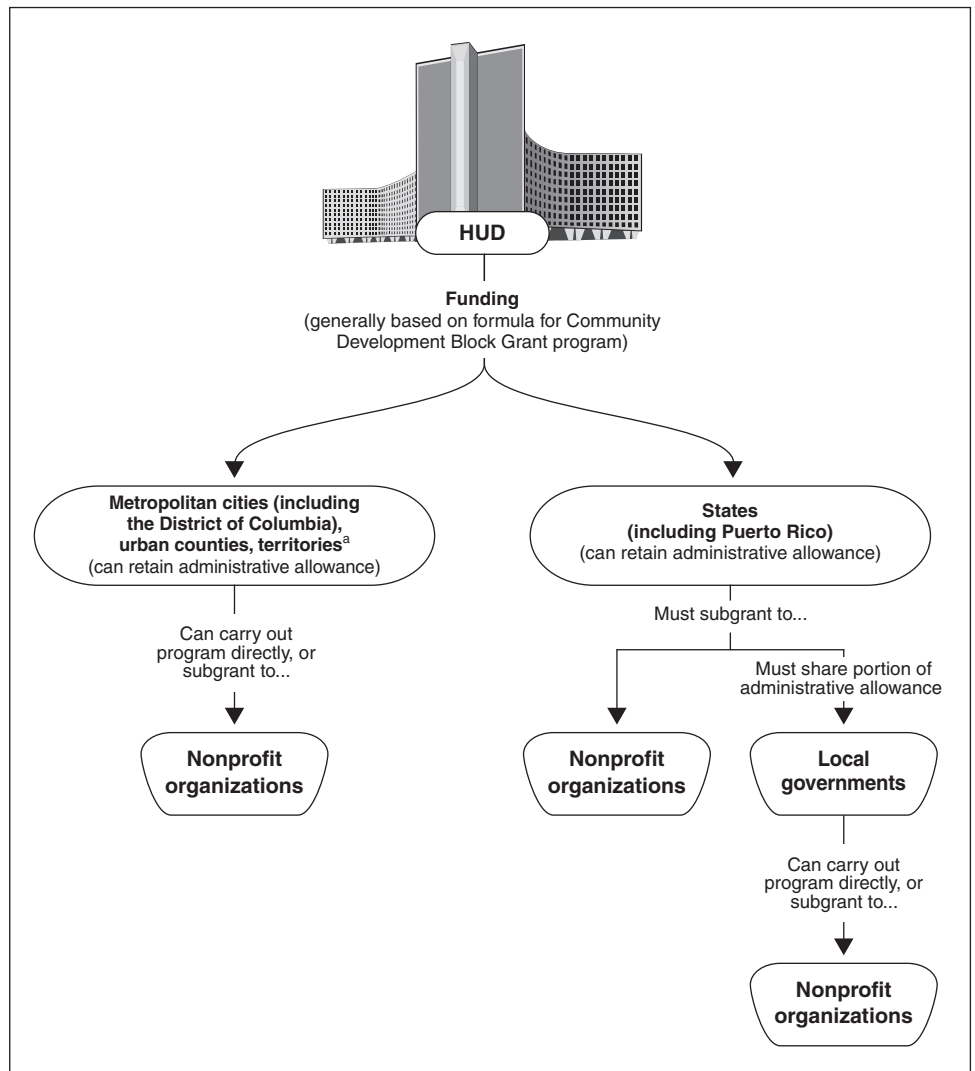
The ESG program generally requires matching contributions by grantees, thus increasing the total funds used to provide services under the program. Metropolitan cities and urban counties must match the ESG funding dollar-for-dollar with cash or noncash resources from public or private sources. States are generally subject to the same requirement, with an exemption for the first \$100,000 in funding.<sup>9</sup>

ESG funds may reach eligible projects through different routes, as shown in figure 2. First, HUD allocates ESG funds to grantees. Metropolitan cities, urban counties, and territories may carry out the program directly or subgrant all or part of their ESG funds to nonprofit organizations. States cannot carry out program activities directly, and must subgrant ESG funds (but may retain up to 5 percent for administration, as discussed below) to local governments or nonprofit organizations. Local governments receiving ESG funds as a subgrant from the state may carry out the program themselves or further subgrant funds to nonprofit organizations. HUD allows ESG grantees flexibility to determine how to award funds to subgrantees. For example, many grantees conduct a competitive process for awarding funds to subgrantees. Other grantees offer repeat funding to organizations that have demonstrated success with ESG-funded homeless assistance programs in the past, or they alternate funding each year among multiple agencies with ongoing homeless assistance programs. Grantees also might make relatively few, but relatively larger, subgrants, or award relatively smaller grants to a greater number of subgrantees.

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<sup>9</sup>Grantees that are local governments may comply with the matching requirement by providing matching funds themselves, or through matching funds or voluntary efforts provided by any subgrantee. For state grantees, ESG subgrantees can also contribute the matching funds, but each state grantee must distribute the benefit of a \$100,000 credit toward the state's required match amount to those subgrantees that are least capable of contributing matching funds. Matching funds can be cash or other forms including donated materials, rental value of a building, or value of time and services contributed. Territories are not subject to the matching requirement.

**Figure 2: How ESG Grants Fund Homeless Services**



Source: GAO, HUD.

<sup>a</sup>Regulations require HUD to set aside 0.2 percent of the total ESG allocation for U.S. territories.

Subgrantees and grantees that are not states may use ESG funding to conduct a range of eligible activities which, as previously noted, include the rehabilitation or remodeling of buildings to be used as shelters, operation of the facilities, essential supportive services, and homeless prevention.

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Under current law, ESG program grantees may use up to 5 percent of their grant award for administrative purposes, which can include staff to administer the grant, the preparation of progress reports and audits, or the monitoring of subgrantees.<sup>10</sup> Grantees are not required to share any of their ESG administrative allowance with subgrantees, except in one instance—when a state awards a subgrant to a unit of local government. According to HUD, the department does not track the extent to which grantees share their ESG administrative allowance with subgrantees.

The HEARTH Act made major changes to the ESG program, while renaming it the Emergency Solutions Grants Program. As noted earlier, the HEARTH Act changed the amount of ESG funds that grantees may use to cover administrative costs, increasing it from 5 percent to a maximum of 7.5 percent of the total grant amount. Programmatically, the HEARTH Act also made the following changes:

- The act authorized new eligible homeless assistance activities: short-term rental assistance, medium-term rental assistance, security deposits, utility deposits and payments, and moving costs.<sup>11</sup>
- It established housing relocation and stabilization services as a major focus area for both homeless assistance and homeless prevention, including outreach, housing search, legal services, and credit repair.
- It established rapid re-housing as a major focus area for homeless assistance. The aim of rapid re-housing is to help people experiencing homelessness return to permanent housing as soon as possible. According to a national homeless advocacy group, these efforts reduce the length of time people remain in homeless shelters, which in turn opens beds for others who need them and reduces the public and personal costs of homelessness.<sup>12</sup>

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<sup>10</sup>As noted previously, the 5 percent limitation, set forth at 42 U.S.C. § 11378, will increase to 7.5 percent when the pertinent provisions of Pub. L. No. 111-22 take effect. The effective date is the earlier of 18 months from the date of enactment (May 20, 2009) or 3 months after the publication of HUD's final regulations implementing the amendments, which are to be promulgated not later than 12 months after the date of enactment. Pub. L. No. 111-22 § 1503.

<sup>11</sup>See Pub. L. No. 111-22 § 1202.

<sup>12</sup>See *Rapid Re-Housing: Creating Programs That Work*, National Alliance to End Homelessness, Washington, D.C., July 2009.

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HUD expects to implement the HEARTH Act changes, including increasing the allowance for administrative costs, with the program's fiscal year 2011 allocation.

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**Grantees and Subgrantees We Visited Reported a Range of Administrative Activities Whose Costs Generally Were Not Fully Covered by the ESG Allowance**






We found that ESG grantees and subgrantees in the states we visited performed a range of administrative activities, but the program's allowance for administrative costs generally did not fully cover the cost of these activities. As a result, grantees and subgrantees told us they must cover any shortfalls with funds from other sources, which diminishes their ability to support other activities. In addition, there are minimal standards that can be used as guidance for evaluating the appropriateness of ESG administrative costs, and we found that grantees and subgrantees in the states we visited monitored ESG administrative costs at varying levels of detail.

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**Grantees' Administrative Activities Focus on Awarding and Monitoring Subgrants, while Subgrantee Administrative Activity Centers on Operating Programs and Reporting Outcomes**

Grantees in the states we visited told us they conducted various activities to administer their ESG allocations. As figure 3 shows, these activities generally fell into five categories: application/approval, financial, reporting, monitoring/oversight, and other. Our review found these grantees' ESG administrative activities generally focused on awarding subgrants and monitoring subgrantee performance. For example, City of Philadelphia officials told us they awarded a total of \$2.2 million through five ESG grants for fiscal year 2009 and their administrative activities included, among other things, approval and tracking of subgrantee budgets and program monitoring.

**Figure 3: ESG Grantee Administrative Activities by Major Categories**

<p><b>Application/ approval</b></p> 	<ul style="list-style-type: none"> <li>• Advise localities of grant availability</li> <li>• Create, distribute, receive applications</li> <li>• Hold workshops, provide information and technical assistance to applicants</li> <li>• Troubleshoot applications</li> <li>• Evaluate, rank, approve applications</li> <li>• Share proposals with citizens, local government officials for review</li> <li>• Recommend funding decisions to local government officials</li> <li>• Conduct public hearings on grant funding decisions</li> <li>• Determine subgrantee funding sources and mix, if multiple programs involved</li> <li>• After approval, submit plans to HUD</li> <li>• Negotiate, prepare contracts</li> <li>• Conduct post-award workshops, provide other information and technical assistance to subgrantees</li> </ul>
<p><b>Financial</b></p> 	<ul style="list-style-type: none"> <li>• Process grant disbursements, including related financial and accounting functions</li> <li>• Planning, budgeting</li> <li>• Audits, including auditor review of subgrantee reports</li> <li>• Review, adjust subgrantee budgets</li> <li>• Monitor subgrantee budgets, programs to ensure HUD compliance</li> <li>• Report information to HUD grant management system</li> <li>• Reconcile data discrepancies between HUD system and local accounting system</li> <li>• Secure matching funds</li> </ul>
<p><b>Reporting</b></p> 	<ul style="list-style-type: none"> <li>• Prepare reports to HUD</li> <li>• Provide technical assistance to subgrantees for their reporting requirements to primary grantee</li> <li>• Collect, assess required subgrantee progress reports</li> <li>• Prepare annual reports on program activity</li> </ul>
<p><b>Monitoring/ oversight</b></p> 	<ul style="list-style-type: none"> <li>• Financial monitoring of subgrantees, including procurement and financial systems, to ensure costs incurred are eligible</li> <li>• Program monitoring of subgrantees, including reviews for program eligibility, timeliness of service delivery, that the proper clients being served</li> <li>• Conduct site visits/inspections</li> <li>• Share best practices</li> </ul>
<p><b>Other</b></p> 	<ul style="list-style-type: none"> <li>• Portion of rent, utilities</li> <li>• Portion of senior managers' time</li> <li>• Information technology, including grants management system</li> <li>• Legal review</li> <li>• Incidental expenses</li> <li>• Prepare Consolidated Plan (master plan for addressing homelessness)</li> <li>• General problem-solving, including denial of applications, funding reductions, trouble with grant reimbursements, and monitoring</li> <li>• Addressing complaints</li> </ul>

Source: GAO interviews with grantees.

Similarly, City and County of San Francisco officials reported they awarded \$944,900 in ESG grants to 19 local service providers for fiscal year 2009 and their administrative activities included site visits and audit reviews.

Among grantees we reviewed, current practice in retaining the 5 percent administrative allowance varied, as shown in table 1. Where grantees kept all or most of the administrative allowance, officials told us this was to cover, at least in part, their administration costs. Where they kept none of

the allowance, officials said this was to maximize funds available to local service providers. Table 1 also shows what grantees told us they expect to retain under the higher administrative allowance provided under the HEARTH Act.

**Table 1: Retention of ESG Administrative Allowance by Selected Grantees**

<b>Grantee</b>	<b>Percentage retained under current ESG program (up to 5%)</b>	<b>Expectation for percentage retained under new ESG program (up to 7.5%)</b>
State of California	Retain 4% Share 1%	Retain 6% Share 1.5%
Oakland	Retain 5%	Retain 7.5%
San Francisco	Retain 5%	Retain 7.5%
State of Michigan	Retain 0%	Retain 0%
Detroit	Retain 0% <sup>a</sup>	Retain 7.5%
Commonwealth of Pennsylvania <sup>b</sup>	Retain 2.5% Share 2.5% with local governments	Retain 3.75% Share 3.75% with local governments
Philadelphia	Retain 5%	Retain 7.5%
State of Georgia	Retain 5%	Retain 7.5%
Atlanta	Retain 5%	Retain 7.5%

Source: As reported to GAO by grantees.

<sup>a</sup>Before 2009, Detroit retained 5 percent, but officials reduced the amount to zero, in part due to declining grant amounts.







<sup>b</sup>For compliance purposes, the state uses local governments to distribute ESG funds to local service providers. In such cases, sharing of the administrative allowance, from state to local government, is mandatory, although the amount is not specified.

Subgrantees in the states we visited also reported a range of administrative activity.<sup>13</sup> As figure 4 shows, these activities generally fell into six categories: application/approval, financial, reporting, management, monitoring/oversight, and other. Our review found that their ESG administrative activities generally focused on operating programs and reporting outcomes. For example, one Georgia subgrantee told us its ESG administrative activities included a portion of the executive director’s

<sup>13</sup>As noted earlier, ESG funding may reach eligible projects through different routes. In our state visits, we spoke with homeless service providers that were nonprofit organizations. We did not visit any local governments that use ESG funds to provide homeless services themselves. We refer collectively to the nonprofit organizations we visited as “subgrantees.”

time, for program oversight; preparing monthly reimbursement requests; coordinating maintenance; and training and coordinating volunteers.

**Figure 4: ESG Subgrantee Administrative Activities by Major Categories**

<p><b>Application/ approval</b></p> 	<ul style="list-style-type: none"> <li>• Write grant proposals, applications</li> <li>• Review grant contracts</li> <li>• Participate in grant orientations, training</li> </ul>
<p><b>Financial</b></p> 	<ul style="list-style-type: none"> <li>• Budgeting</li> <li>• Cash management</li> <li>• Track, allocate grant funds</li> <li>• Billing</li> <li>• Obtain reimbursements from primary grantees</li> <li>• Accounting, payroll</li> <li>• Audit</li> <li>• Procurement</li> <li>• Pay contractors</li> <li>• Process checks</li> <li>• Review documentation for checks, invoices</li> </ul>
<p><b>Reporting</b></p> 	<ul style="list-style-type: none"> <li>• Various reports to primary grantees or others, including financial matters, number of clients served, services provided, number of clients housed, referrals made</li> <li>• Data collection, reporting for Homeless Management Information System</li> </ul>
<p><b>Management</b></p> 	<ul style="list-style-type: none"> <li>• General supervision/oversight of program operations, including time of executive director, managers of finance, operations, human resources</li> <li>• Outreach to funding sources, participate in networking meetings</li> <li>• Community relations, such as with police or neighbors who dislike shelter nearby</li> <li>• Recruit, hire, train staff</li> <li>• Supervise volunteers</li> </ul>
<p><b>Monitoring/ oversight</b></p> 	<ul style="list-style-type: none"> <li>• Participate in oversight meetings, visits, other activities with primary grantee</li> <li>• Prepare staff for audits/oversight</li> </ul>
<p><b>Other</b></p> 	<ul style="list-style-type: none"> <li>• Utilities, including phone, Internet</li> <li>• Technical support, including for copiers</li> <li>• Staff time for mailings</li> <li>• Building, maintenance costs</li> <li>• Rent</li> <li>• Document staff time utilization</li> <li>• Risk management</li> <li>• Human resources, including employee assistance program</li> <li>• Train, coordinate volunteers, including background checks</li> </ul>

Source: GAO interviews with subgrantees.

Similarly, a Michigan subgrantee told us its ESG administrative activities included oversight and supervision of its program, financial reporting and auditing, and reporting shelter statistics.




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**Neither Grantees Nor  
Subgrantees Fully Cover  
Administrative Costs with  
Amounts Designated for  
Administration and Rely  
on Other Sources to Cover  
Unfunded Costs**

Grantees and subgrantees in the states we visited told us the ESG administrative allowance generally did not fully cover their actual costs to administer the grant award, and that as a result, they relied on other sources to cover any unfunded costs. We found that grantees' and subgrantees' actual ESG administrative costs depended on a number of factors, such as the number of grant awards made, level of oversight provided, number of staff involved in administrative tasks, and types of ESG program activities funded. Figure 5 provides details on the estimated unfunded ESG administrative costs and sources used to cover these costs for grantees and subgrantees we visited. Overall, the unfunded administrative costs reported to us across the eight grantees and 22 subgrantees we visited for which information was available averaged an estimated 13.2 percent of the ESG allocation, with a range of 2.5 percent to 56 percent. However, HUD officials cautioned that some subgrantees we visited appear to be confusing program activities with administrative activities, which might have affected their estimates of actual administrative costs.

**Figure 5: Estimated Unfunded ESG Administrative Costs for Grantees and Subgrantees in Selected States**

<b>California</b>		<b>Grantees</b>			
			<b>ESG grant funds received</b>	<b>Est. unfunded ESG administrative expenses as percentage of grant</b>	<b>Source(s) used to fill the gap</b>
		State of California	\$6.8M	4.0%	General fund
		Oakland	\$371,000	25.0%	General fund, redevelopment funds
		San Francisco	\$939,000	16.0%	CDBG <sup>a</sup> , general fund
<b>Subgrantees</b>					
<b>Local homeless service provider</b>	<b>Use of ESG funds</b>				
Shelter for homeless women, children	General operations			3.4	Private fundraising
Emergency shelter, transitional housing	Case manager salary			13.5	Federal, county funding; private fundraising
Range of housing options from emergency shelter to permanent supportive housing, plus homeless services	Facilities, food, and direct operating costs for age 18-24 shelter			9.0	City funding, private fundraising
Shelter for abused and homeless women, children	General operations			9.0	County funding, private fundraising
Drop-in resource center for homeless	Primarily employee salaries, plus some telephone and rent			10.0	Private fundraising
Shelter for homeless adults	Shelter utility costs			12.0	City funding


<b>Michigan</b>		<b>Grantees</b>			
			<b>ESG grant funds received</b>	<b>Est. unfunded ESG administrative expenses as percentage of grant</b>	<b>Source(s) used to fill the gap</b>
		State of Michigan	\$2.8M	13.0%	State housing development authority <sup>b</sup>
		Detroit	\$1.6M	27.5%	CDBG <sup>a</sup>
<b>Subgrantees</b>					
<b>Local homeless service provider</b>	<b>Use of ESG funds</b>				
Emergency shelter, transitional housing, other housing and services, for men, women, children	General operations			8.5	Private fundraising, foundation grants
Emergency shelter for victims of domestic violence and sexual assault, and their children	Utilities and other shelter expenses such as insurance, trash pickup, telephone, janitorial			14.0	Private fundraising
Transitional housing, apartments, case management, prevention, other services	General operations			20.0	Federal, state, county funding; United Way, private fundraising
Shelter, apartments for homeless women	General operations			18.0	Private fundraising, endowment funds

Figure continues on next page.


Notes: "Use of ESG funds" refers to program services funded by ESG grants. "Est. unfunded ESG administrative expenses" refers only to administrative costs. Funding is as reported for fiscal year 2009. When range provided by source, mid-point is reported here. Figures for unfunded administrative costs are for actual or minimum amount, as reported by source. Some local homeless service providers may receive ESG funds from state as well as local government sources. Omitted is one additional homeless service provider in Detroit, for which information was unavailable.


<sup>a</sup>Community Development Block Grant

<sup>b</sup>Specifically, proceeds from operations of the Michigan State Housing Development Authority, a quasi-governmental authority that oversees the state's ESG program.

<sup>c</sup>City combines ESG funding with other sources to make lump sum grants to homeless service providers, of which 12 percent may be used for administration. ESG funds do not go towards the 12 percent allowance.

<sup>d</sup>Also, some charges not billed, and some costs absorbed through growth.

Pennsylvania		Grantees				
		ESG grant funds received	Est. unfunded ESG administrative expenses as percentage of grant		Source(s) used to fill the gap	
		Commonwealth of Pennsylvania	\$3.2M	Not available	%	General fund
		Philadelphia	\$2.3M		5.0	General fund
Subgrantees						
Local homeless service provider	Use of ESG funds					
Human services, including homeless family shelter	Rent, utilities, equipment, insurance, sometimes fuel			7.3	Subsidy from parent organization	
Shelter for domestic violence victims and their children	Supplies, utilities, maintenance			6.5	United Way, private fundraising	
Shelter and services for families, single adults	General operations			10.0	Federal, county funding; United Way	
Shelters for men and women, other programs	General operations			13.0	City funding <sup>c</sup> , internal funds	
Homeless shelter, transitional housing for women, children	Heating, ventilation, air-conditioning repairs			2.5	United Way, corporate and foundation donations	
Emergency shelter, other housing, case management, employment support for homeless families	General operations			10	City funding <sup>c</sup>	
Multi-state human service agency, including homeless shelters	General operations			15	City funding <sup>c,d</sup>	

Georgia		Grantees				
		ESG grant funds received	Est. unfunded ESG administrative expenses as percentage of grant		Source(s) used to fill the gap	
		State of Georgia	\$2.2M		12.5%	State trust fund for homeless, state housing finance authority
		Atlanta	\$369,000		56	CDBG <sup>a</sup>
Subgrantees						
Local homeless service provider	Use of ESG funds					
Homeless prevention	Prevention services; in most cases, to pay client rent			20.0	County funding, United Way	
Emergency shelter, transitional housing for women, families with children; homeless prevention	General operations			5.0	Donations from congregations, other private donations	
Emergency shelter, residential recovery, transitional housing	Utilities			10.5	Generally from other sources	
Shelter, financial assistance, employment education	Short-term housing			13.0	Generally from other sources, United Way	
Comprehensive homeless service center, including shelter, day center, medical clinic, employment and training services	Food, security			7.0	Generally from other sources, United Way	
Legal services	Foreclosure prevention			Not available	Generally from other sources	

Source: GAO interviews with respective government officials, homeless service providers.

For example, California ESG program officials estimated their unfunded ESG administrative costs at 4 percent of the state’s ESG allocation (actual administrative costs equal to 8 percent of ESG allocation, less 4 percent retained for administrative costs). To cover these unfunded costs, the officials said they rely on the state’s general fund revenues. Similarly, City of Oakland (California) officials estimated their unfunded ESG administrative costs at 25 percent of their ESG annual allocation (actual administrative costs equal to 30 percent of ESG allocation, less 5 percent retained for administrative costs). These officials also told us that they

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used the city's general and redevelopment funds to cover the unfunded costs. In Pennsylvania, one subgrantee estimated its unfunded ESG administrative costs at 2.5 percent of its grant award (based on actual costs, with no administrative allowance from its grantee). This subgrantee, which reported using ESG funds for a one-time building repair project, told us that it used private donations, including from corporations and foundations, to cover its unfunded costs. In Michigan, a subgrantee estimated its uncovered ESG administrative costs at 14 percent (based on actual costs with no administrative allowance), saying it also relied on private donations to cover its unfunded costs. As previously noted, grantees must match their ESG allocations, and subgrantees can provide the match. These matching funds provide a potential source for covering administrative costs.

Several subgrantees in the states we visited told us there has been a trend toward more private donations being restricted—that is, made for specific programs or purposes, rather than generally available for a subgrantee's operations, including administrative costs. Thus, reliance on private donations to cover unfunded ESG administrative costs may become more challenging. For example, one subgrantee told us that donors feel it is more attractive to fund specific programs that have more tangible outcomes compared with funding administrative costs. Another subgrantee told us that business donors tend to target contributions to address specific issues and achieve particular results. Finally, one subgrantee told us that nonprofits themselves have contributed to this trend by telling potential donors they will use donations to undertake specific nonadministrative tasks.<sup>14</sup>

Some grantees and subgrantees in the states we visited told us the need to cover unfunded ESG administrative costs using other funding sources has diminished their ability to fund other program activities. For example, one grantee told us that amounts spent to cover unfunded ESG administrative costs could otherwise be directed toward community and economic development activities. Another grantee cited housing counseling and home purchase down-payment assistance as areas that could receive

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<sup>14</sup>Representatives of two national organizations we contacted that are familiar with charitable giving—the National Council of Nonprofits and the Center on Nonprofits and Philanthropy of the Urban Institute—echoed the views of the subgrantees, saying there is a pronounced trend toward more restricted donations, accompanied by a growing awareness among nonprofits that too much restricted funding can undermine their ability to perform by not providing enough money for essential general and administrative activities.

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funding but for the need to cover unfunded ESG administrative costs. One subgrantee also told us it could otherwise devote more resources to programs aimed at adoption, single mothers, and family counseling if not for unfunded ESG administrative costs.

Some grantees and subgrantees also told us that unfunded ESG administrative costs can affect program administration, interest in participating in the program, and program oversight.<sup>15</sup> For example, one grantee told us that it chooses to make fewer but larger ESG awards to subgrantees, rather than make a greater number of smaller awards, in part because it is less costly to oversee a smaller number of subgrantees. In addition, two subgrantees told us that but for other mitigating factors, they would consider not participating in the ESG program because of the unfunded administrative costs.<sup>16</sup> Some grantees also told us that if more funds were available for administrative costs, there could be greater monitoring of subgrantee activity. One grantee noted that it must stop monitoring subgrantees during parts of the year and generally does not do as much oversight as is desirable. Another grantee added it has difficulty meeting its goal of making at least one site visit to subgrantees each year.

According to HUD officials, the ESG program was established with a lower administrative cost allowance based on the expectation that grantees could obtain funds from other sources to cover unfunded ESG administrative costs. The officials also told us that although they do not have comprehensive information on the extent to which the ESG administrative cost allowance is sufficient to cover grantees' actual

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<sup>15</sup>Our review focused on current ESG grantees and subgrantees. We did not seek to identify any instances of grantees or subgrantees dropping out of the ESG program, or declining to participate, because of unfunded administrative costs.

<sup>16</sup>For one subgrantee, the mitigating factor was the ability to realize economies by using data produced for other purposes to satisfy ESG requirements. For the other, officials told us that cost notwithstanding, they believed it is important to be an active participant in the local community.

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administrative costs, the agency has received many informal comments over time characterizing the allowance as insufficient.<sup>17</sup>

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### Available Sources for Evaluating the Appropriateness of ESG Program Administrative Costs Offer Little Detail, and Monitoring of These Costs Varies

As GAO has noted previously, there is no government-wide definition of what constitutes an administrative cost.<sup>18</sup> For the ESG program in particular, there are a number of sources that provide standards for administrative costs, but we found they generally offer little detail for evaluating the appropriateness of these costs.

For grantees, there are regulations and agency guidance that address administrative costs.

- **HUD Regulations.** HUD regulations for ESG administrative costs define such costs by way of example only, to include costs associated with: accounting for the use of grant funds, preparing reports for submission to HUD, obtaining program audits, similar costs related to administering the grant after the award, and staff salaries associated with these administrative costs.<sup>19</sup> Under the regulations, administrative costs do not include the costs of carrying out eligible activities under the ESG program.<sup>20</sup>

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<sup>17</sup>In general, federal grant programs can treat administrative expenses, and expected contributions by grant recipients, a number of different ways. See, for example, GAO, *Human Service Programs: Demonstration Projects Could Identify Ways to Simplify Policies and Facilitate Technology Enhancements to Reduce Administrative Costs*, GAO-06-942 (Washington, D.C.: Sept. 19, 2006). This report describes, among other things, how definitions of administrative costs vary across programs, and how federal and state participation in funding administrative costs can be governed by matching rates, block grants, spending caps, or other rules.

<sup>18</sup>See, for example, GAO, *Title I: Although Definitions of Administrative Expenditures Vary, Almost All School Districts Studied Spent Less Than 10 Percent on Administration*, GAO-03-386 (Washington, D.C.: Apr. 7, 2003). Additionally, a relevant OMB circular—OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*—does not define administrative costs. Similarly, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, which establishes cost principles for determining costs of grants, contracts and other agreements with nonprofit organizations, states that “[b]ecause of the diverse characteristics and accounting practices of non-profit organizations, it is not possible to specify the types of cost which may be classified as indirect cost in all situations,” where “indirect cost” includes “administration” expenses.

<sup>19</sup>See 24 CFR 576.3 (defining ESG “administrative costs” by reference to 24 C.F.R. § 583.135(b)).

<sup>20</sup>Id.

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- **HUD ESG Program Desk Guide.** The desk guide provides an overview of the ESG program, describes the funding process, and covers topics including the initial application, grant administration, project implementation, and performance monitoring. For administrative costs, the desk guide also works on the basis of example, stating that eligible administrative costs include staff to operate the program, preparation of progress reports and audits, and monitoring of recipients. Ineligible administrative costs include the preparation of the Consolidated Plan and other application submissions,<sup>21</sup> conferences or training in professional fields, and salary of an organization's executive director, except to the extent they are involved in carrying out eligible administrative functions.

In addition to the regulations and the desk guide, HUD also publishes the *Guide for Review of ESG Cost Allowability* and the *Guide for Review of ESG Financial Management* as resources for grantees.<sup>22</sup> These guides, however, do not provide any additional details on the appropriateness of administrative expenses. The guides refer to compliance with regulations and circulars published by the Office of Management and Budget (OMB). In particular, OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, details principles for determining allowable costs incurred by state, local, and federally recognized Indian tribal governments under grants and other agreements with the federal government. These principles are not specific to the ESG program, and the circular is not necessarily the final authority on such matters, as it requires agencies administering programs to issue regulations implementing the circular. HUD officials told us the agency's ESG regulations incorporate the provisions of OMB Circular A-87.<sup>23</sup>

It is difficult to evaluate the appropriateness of grantees' ESG administrative costs because the available sources for doing so, as described above, are brief and not exhaustive. For example, Pennsylvania

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<sup>21</sup>According to HUD, a Consolidated Plan is a plan resulting from a collaborative process in which a community establishes a unified vision for community development. The process aims to have local jurisdictions shape various housing and community development programs into coordinated neighborhood and community development strategies. HUD requires jurisdictions receiving ESG grants, among other programs, to submit a Consolidated Plan detailing objectives for community revitalization.

<sup>22</sup>These are contained within HUD's *CPD Monitoring Handbook*, which contains HUD monitoring criteria for programs administered by HUD's Office of Community Planning and Development.

<sup>23</sup>See, e.g., 24 C.F.R. § 576.57 (specifying applicability of OMB Circulars).

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ESG program officials undertake a number of activities during the preaward application stage, including providing technical assistance to applicants and offering general training every several years, but it is not explicitly clear under the federal guidance whether such activities are eligible administrative costs based on available sources for evaluation. In addition, San Francisco ESG program officials told us they included office space rental, general overhead, and utility costs among their ESG administrative costs, but the available sources do not address nonpersonnel costs. As a result, it is not clear whether such specific activities are eligible administrative costs. Further complicating the issue of examining administrative costs is grantees' self-funding of ESG administrative costs. To the extent grantees use other funding sources to cover unfunded ESG administrative costs, as discussed earlier, the ESG program standards for administrative expenses do not apply.

For subgrantees we visited, we also found that ESG administrative cost standards were varied and can offer little or no detail for evaluating the appropriateness of these costs. Generally, grantees address subgrantee administrative costs by providing rules or guidance through program solicitation documents or contracts with subgrantees. The State of California's ESG Notice of Funding Availability, for example, states that eligible administrative costs are "only those necessary to administer the [ESG] grant, not to administer or operate the shelter." In addition, specific allowable administrative expenses include staff costs to prepare ESG reports, communications with ESG staff, payment for the ESG share of a required audit, and staff costs associated with processing accounting records and billings. The City of Atlanta takes a different approach, citing administrative expenses as identified under OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, as acceptable. This circular distinguishes administrative costs from other types of expenses, and includes consideration of a number of different expense categories.<sup>24</sup> The state of Georgia took the least detailed approach among the states we visited, as Georgia ESG program officials told us they do not provide criteria for administrative costs because the state does not fund these types of costs.

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<sup>24</sup>The circular identifies administrative costs as a form of "indirect costs"—those incurred for common or joint objectives—and specifically defines "administration" as "general administration and general expenses" such as a director's office, accounting, personnel, library expenses, and other nonfacility expenses. OMB Circular A-122, Attachment A (Revised June 9, 2004). See 2 C.F.R. Part 230.



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As with grantees, the level of detail in the various cost standards for subgrantees' administrative costs can make it difficult to assess the appropriateness of spending. For example, as noted, California rules cite expenses necessary to administer the ESG grant itself, not to administer or operate a shelter. However, one California subgrantee reported to us that its ESG administrative activities include those associated with client intake, handling client case management forms, and technical support. Similarly, as noted, the City of Atlanta relies on OMB Circular A-122, which identifies administrative costs as a form of "indirect costs"—those incurred for common or joint objectives—and defines "administration" as "general administration and general expenses." However, a subgrantee also reported to us that its ESG administrative activities include those associated with a range of client-focused dealings spanning intake to post-program follow-up. HUD officials told us that both client intake and case management (including handling case management forms) activities are not eligible administrative costs under the ESG program; rather, these activities are eligible program costs under the shelter operations and essential services categories. Moreover, as with grantees, a complicating factor is subgrantees' self-funding of ESG administrative costs.

To monitor the ESG program's grantees, HUD field offices annually conduct a risk analysis to determine which grant programs are higher risk and thus warrant attention. According to HUD officials, the ESG program usually is not identified for any heightened on-site monitoring. However, HUD officials said that HUD field office staff conduct off-site monitoring of many ESG grants annually. ESG grantees must submit a Consolidated Annual Performance and Evaluation Report that contains qualitative and quantitative information about ESG, including annual expenditures and accomplishments. More broadly, grantees prepare an annual action plan that describes, among other things, how they plan to use ESG funds. The plan includes a brief description of activities, and it varies as to whether the plan includes details on administrative expenses, HUD officials told us.<sup>25</sup> Overall, HUD officials told us they have not conducted any

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<sup>25</sup>In addition to HUD's own monitoring of grantees, there can also be monitoring by entities other than HUD. For example, officials of the Michigan State Housing Development Authority, which runs the state's ESG program, described to us how credit rating agencies play a role in overseeing their agency's performance. As an issuer of bonds, the authority is subject to evaluations by credit rating agencies. According to authority officials, the ratings agencies look at such things as the authority's finances, legal situation, and program and service delivery. The officials told us that despite the scrutiny, rating agency attention is more constructive than a liability and has contributed to the agency's financial stability and ability to expand.

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comprehensive evaluation of ESG administrative costs for grant recipients.<sup>26</sup>

Grantees and subgrantees in the states we visited also monitored ESG administrative costs at varying levels of detail. Grantees told us they generally monitored subgrantee administrative costs through budget reviews, either before or after grant award, or both, and also through in-office monitoring and subgrantee site visits. For example, San Francisco ESG program officials told us they evaluate subgrantees' audits, conduct site visits, perform business and cost reviews, and provide technical assistance. In addition, City of Detroit ESG program officials told us they do not perform a specific check of ESG administrative spending but watch for any obvious problems, such as whether a program's total administrative costs exceed 10 percent. Further, City of Atlanta officials told us they review proposed budgets of subgrantees as part of the application process, and applications with administrative costs deemed to be too high (greater than 20 percent) are rated negatively. They added that the city monitors its ESG subgrantees annually, but does not specifically track the administrative costs of ESG-funded activities because the city provides no funding for these administrative costs.

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<sup>26</sup>HUD officials said the last major evaluation of the ESG program was in 1994; see HUD Office of Policy Research and Development, *Evaluation of the Emergency Shelter Grants Program*, Washington, D.C., prepared by Abt Associates: September 1994. The report contains limited discussion of administrative costs. Since then, the agency has not undertaken a separate analysis of ESG administrative costs, officials told us.

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## Funding and Treatment of Administrative Costs Varied Across Selected Federal Grant Programs

We found that the funding and treatment of administrative costs varied across the other targeted federal homeless grant programs we reviewed. We identified variations in areas such as the administrative allowance provided to grantees, requirements for sharing any of that allowance with subgrantees, and guidance on the appropriateness of administrative costs. First, as shown in figure 6, the extent to which each program included a maximum administrative allowance varied, and when a maximum allowance was specified, the amount of that allowance varied widely. Among programs with a maximum administrative allowance, the ESG program's current 5 percent maximum administrative allowance for grantees is one of the lower allowances. The maximum administrative allowance for the other programs that have specified a maximum allowance ranges from 4 percent to 50 percent.

**Figure 6: ESG Administrative Cost Provisions Compared to Selected Other Federal Homeless Programs**

		Administrative allowance (percentage of grant if specified) authorized for:		Provision for sharing administrative allowance	Administrative costs not funded				Other
		Grantees	Sub-grantees		Grant preparation	Professional training	Exec. director salary	Unnecessary, unreasonable <sup>a</sup> <sup>b</sup>	
HUD	<b>Emergency Shelter Grants Program:</b> Emergency shelter, related services, homeless prevention	≤5% (increasing to 7.5%)	With one exception	Yes; sharing provisions vary by program	✓	✓	✓	✓	Law, regulations silent on whether grantees must share allowance with nonprofit subgrantees
	<b>Supportive Housing Program:</b> Supportive housing, related services for independent living	≤5%			✓	✓	✓	✓	Government grantees that pass on at least 50% of administrative funds deemed to have met sharing requirement
Labor	<b>Homeless Veterans' Reintegration Program:</b> Job placement for homeless veterans	≤20% <sup>c,d</sup>	Provided, but unspecified				✓	Grantees required to attend financial management training, which includes administrative costs	
Education	<b>Education for Homeless Children and Youth – Grants for State and Local Activities:</b> Public education for homeless children	≤25% <sup>e</sup>					✓	States can impose more stringent requirements than 25% federal rule	
	<b>Homeless Education Disaster Assistance Program:</b> Assistance to local education agencies where homeless student enrollment increased due to 2008 natural disasters <sup>f</sup>						✓	One-time program ending in 2010; under the grant, states not responsible for monitoring local educational agency activities	
HHS	<b>Health Care for the Homeless:</b> Primary health care, mental health, substance use services	Provided, but unspecified	NA (funds distributed directly)	NA (funds distributed directly)	✓			✓	Grantees are federally qualified health centers, and may use health center income to cover general costs, including administrative costs
	<b>Programs for Runaway and Homeless Youth:</b> Immediate needs, transitional living, street outreach services for runaway and homeless youth				✓			✓	Peer monitoring process used, where reviewer selected as a suitable peer to program under review is paired with HHS program specialist
	<b>Projects for Assistance in Transition from Homelessness:</b> Support services for homeless, or at risk of homelessness, with mental illness or substance use disorders	≤4%			✓				No formal guidance for indirect costs, which include administrative costs
	<b>Grants for the Benefit of Homeless Individuals:</b> Treatment for homeless persons with mental illness or substance use disorders	Provided, but unspecified	NA (funds distributed directly)	NA (funds distributed directly)	✓				Grantees must have indirect cost agreement if claiming indirect costs, which include administration. Otherwise, grant specialists review administrative items.
	<b>Services in Supportive Housing Program:</b> Housing assistance and support services for homeless persons with mental illness and substance use disorders	Provided, but unspecified	NA (funds distributed directly)	NA (funds distributed directly)	✓				

Not applicable  
 Provision/allowance  
 No provision/allowance

Source: Agency documents, GAO interviews with respective agency officials.

Note: This comparison does not include HUD's Shelter Plus Care Program, which provides rental assistance for permanent housing. According to HUD, the program provides an allowance for administering rental assistance, such as providing housing information or inspecting housing units, but does not provide funds for grant administration. On that basis, although Shelter Plus Care is a targeted homeless program, we excluded it from our comparison.

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<sup>a</sup>Salary of an organization's executive director is an ineligible administrative cost, except to extent he or she is involved in carrying out eligible administrative functions.

<sup>b</sup>Administrative costs must be reasonable and necessary, as indicated in OMB Circular A-87.

<sup>c</sup>Program's 20 percent administrative allowance cap applies even if the grantee has negotiated an indirect cost rate greater than 20 percent.

<sup>d</sup>Limited to 20 percent total for grantees and subgrantees combined.

<sup>e</sup>State grantees may retain up to 25 percent of grant for state-level activities, which may include administration; in minimally funded states, figure is up to 50 percent.

<sup>f</sup>Eligibility determined according to a Federal Emergency Management Agency compilation of disasters, available at [www.fema.gov/news/disasters.fema#sev1](http://www.fema.gov/news/disasters.fema#sev1).

Second, we found that program rules for grantee sharing of administrative allowances with subgrantees varied across homeless programs with similar funding structures. For example, HUD's Supportive Housing Program requires grantees to share administrative allowances with subgrantees, but does not specify the amount.<sup>27</sup> The Department of Labor's Homeless Veterans' Reintegration Program does not require sharing of administrative allowances, but gives grantees discretion to share with subgrantees. The ESG program combines mandatory and discretionary sharing—it requires grantees that are state governments to share an unspecified portion of their administrative allowance when passing funds to local governments. Otherwise, sharing is optional but not mandated.<sup>28</sup> These specific programs and their particular rules notwithstanding, most of the programs we reviewed do not provide administrative cost allowances for when grantees pass along funds to subrecipients. In all, there was considerable variation across programs in provision of subgrantee administrative allowances.

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<sup>27</sup>Under the program, when a state or local government receives a grant to fund projects operated by nonprofit organizations, the administrative funds provided as part of the grant must be passed on to the nonprofit in proportion to the administrative burden borne. HUD considers sharing of at least 50 percent of the administrative allowance as meeting this requirement.

<sup>28</sup>Regarding sharing of the ESG administrative allowance in particular, subgrantees to whom we spoke said they would welcome additional money, but there were mixed views about requiring sharing in all cases. Some said sharing should be mandated and questioned the worth of the activities performed by grantees. Other service providers, however, said they recognized that grantees themselves have legitimate administrative costs or that programs could suffer if their administrative funding were reduced through a mandatory sharing feature. HUD officials echoed this view, saying that in focus groups held in preparation for writing the HEARTH Act regulations, participants were divided on whether there should be mandatory sharing. If sharing were required, less funding would be available for programs. HUD officials also told us it is a significant concern for them that oversight could be compromised if grantees are required to transfer some of their administrative allowance to local service providers.

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Third, we found that program guidance on the appropriateness of administrative costs differed across the targeted homeless programs we reviewed, and that no program offered comprehensive direction on eligible and ineligible administrative activities. As noted earlier, the ESG program's desk guide provides examples of both eligible and ineligible administrative activities, albeit not exhaustively. By contrast, five of the targeted programs' rules—including programs of the Departments of Education, Labor, and Health and Human Services—do not specifically define eligible or ineligible administrative activities. Instead, some of these programs' rules reference OMB cost principles and note that administrative costs must be reasonable and necessary, as defined by OMB Circular A-87.<sup>29</sup> HUD's Supportive Housing Program follows an ESG-style example approach.

We also found that the ESG program's maximum administrative allowance for grantees was one of the lower allowances for HUD formula grant programs offered through HUD's Office of Community Planning and Development. As table 2 shows, the ESG program's administrative allowance for grantees will also remain one of the lower of the group after it increases to 7.5 percent. The ESG program is among four formula grant programs offered through the Office of Community Planning and Development, which seeks to develop communities by promoting decent housing and expanded economic opportunities for low- and moderate-income persons. However, given the programs' diverse missions, as also shown in table 2, the nature and amount of administrative costs may vary among them.

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<sup>29</sup> HUD officials said they have adopted OMB's reasonable and necessary standard into the agency's own rules.

**Table 2: Grantee Administrative Allowance for Selected HUD Formula Grant Programs**

Grant program and purpose	Administrative allowance	Total allocation, FY 2009
<i>Emergency Shelter Grants Program</i> Emergency shelter, related services, homeless prevention	Up to 5% of grant amount; increasing to 7.5%	\$160 Million
<i>Community Development Block Grants</i> Range of purposes, including affordable housing, community services, job creation through expansion and retention of business	Up to 20% of grant amount (also includes planning costs)	\$3.64 Billion
<i>HOME Investment Partnerships Program</i> Build, buy, rehabilitate affordable housing for rent or ownership, or provide rental assistance to low-income renters	Up to 10% of grant amount	\$1.82 Billion
<i>Housing Opportunities for People with AIDS</i> Housing, social services, program planning costs	Up to 3% of grant amount	\$276 Million

Source: HUD Office of Community Planning and Development

## Some ESG Recipients Expect the Nature of Administrative Costs to Change and the Amount to Increase under New Activities Authorized by the HEARTH Act

A number of grantees and subgrantees in the states we visited and others told us they expect that the newly allowable ESG activities authorized by the HEARTH Act will result in different kinds of administrative activities that in many cases will be more costly than before. As previously noted, the act increased the range of eligible prevention and re-housing activities to include short- or medium-term rental assistance and housing relocation or stabilization services. Overall, grantees and subgrantees told us they expect changes in areas including client screening and eligibility verification, technical assistance to subgrantees, number of applicants for grants, and facility management and collaboration with third parties, which in turn could affect administrative costs. For example, City of San Francisco and Pennsylvania state officials told us the new activities authorized by the act might result in a greater number of applicants for grant awards, or their agencies might have to provide more outreach and technical assistance to subgrantees. In addition, one California subgrantee told us that they expect an effort to have people leave shelters more quickly under the new ESG activities. This subgrantee added that this might increase the administrative costs associated with collecting and reporting data on an increased number of people coming through the program. This subgrantee also said it expects the new ESG activities to have a secondary effect in shelters themselves, where a changing mix of residents likely will mean higher administrative costs. This subgrantee said that new HEARTH Act-style programs will likely enroll the best functioning people, so those left in shelters will be relatively less functioning—and hence more costly to manage. Another subgrantee, in

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Michigan, told us it is already starting to see changes in administrative costs with expansion of activities beyond traditional emergency shelter services and into rapid re-housing. For example, new program activities require more time for administration, both internally and externally, and there have been organizational changes such as in handling of rent funds. Finally, one California subgrantee estimated its administrative costs could rise from about 3.5 percent to between 12 percent to 14 percent under the new ESG activities. As noted previously, however, HUD officials told us that some subgrantees we visited appear to be confusing program activities with administrative activities, which might have affected their estimates of actual administrative costs.

While a number of grantees and subgrantees told us they expect the nature of administrative activities to change, and their costs to increase, not all the recipients we visited agreed that higher administrative costs are likely. For example, a Pennsylvania subgrantee told us it anticipates that the administrative costs associated with a prevention program would probably be equal to the costs of a shelter program, and it would not expect costs to be higher unless program requirements become more onerous. California state officials told us they do not expect the nature or amount of administrative costs will change with new program activities, because activities already change frequently today. Similarly, a Michigan subgrantee told us that barring any increase in regulatory requirements, it does not expect any added burden in areas such as reporting of program activity, audit duties, or office space required for administration. Overall, expectations about higher administrative costs are plainly prospective in nature, because the new activities have not yet been implemented.

Although the HEARTH Act makes significant changes to allowable ESG activities, it remains unclear when actual program changes might be implemented. According to HUD officials, the total funds allocated to the ESG program will determine the extent to which money is available for the new services. HUD officials also told us that a significant increase in ESG funding, along with significant program changes, could increase grantees' costs of monitoring and reporting, because more money must be tracked



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and monitored in conjunction with a wider array of program requirements.<sup>30</sup>

Uncertainty over how and when the new ESG program might be implemented, as well as variation in the nature of administrative activities seen in the current ESG program, complicate any attempt to determine the appropriate size of the program's administrative allowance. Providing such an allowance helps ensure funds are spent properly and directed to their appropriate purpose. But if the allowance is insufficient to allow adequate administration and oversight, program efficiency and effectiveness could be at risk. Grantees and subgrantees we spoke with reported that the current ESG administrative allowance does not fully cover their administrative costs. Moreover, our work indicates that even with the new administrative allowance of 7.5 percent, the ESG program would still have one of the lower allowances among similarly structured homeless grant programs. If the new ESG program increases in complexity or scope of services, its administrative cost allowance will take on even more significance in the future.

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## Agency Comments and Our Evaluation

We provided a draft of this report to the Departments of Housing and Urban Development, Education, Health and Human Services, and Labor for their review and comment. HUD did not provide formal comments, but noted by e-mail that some subgrantees we visited may not be making a proper distinction between program costs and administrative costs, which could have the effect of overstating any need for a larger ESG administrative allowance. We reflected this sentiment throughout this report as appropriate. HUD further indicated that the department would examine what steps it could take to help grantees and subgrantees better understand which administrative costs can be funded under the ESG program and the extent to which administrative costs differ from activity delivery costs. HUD added that these steps would include providing greater clarity and detail on what costs are eligible under the different ESG activity categories, including administrative costs, in a proposed new rule the department is developing to implement the changes to the McKinney-Vento Homeless Assistance Act provided in the HEARTH Act.

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<sup>30</sup>HUD officials told us they are drafting regulations to implement the new Emergency Solutions Grant Program, but did not specify a schedule for publishing proposed regulations for public comment. HUD expects to implement the new ESG program in the fiscal year 2011 allocation process. In its fiscal year 2011 budget proposal, HUD requested \$200 million for the new ESG program, a 25 percent increase above the \$160 million allocated for ESG in fiscal year 2010.

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HUD also provided technical comments by e-mail, which we have incorporated into the report as appropriate.

The Secretaries of Education, Health and Human Services, and Labor did not provide comments.

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We are sending copies of this report to interested congressional committees and the Secretaries of the Departments of Housing and Urban Development; Education; Health and Human Services; and Labor. This report will also be available at no charge on GAO's Web site at <http://www.gao.gov>. Please contact me at (202) 512-8678 or [cackleya@gao.gov](mailto:cackleya@gao.gov) if you or members of your staffs have any questions about this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. See appendix II for key contributors to this report.



Alicia Puente Cackley  
Director, Financial Markets  
and Community Investment

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# Appendix I: Scope and Methodology

To determine the types of administrative activities performed and costs incurred under the Emergency Shelter Grants Program (ESG) of the U.S. Department of Housing and Urban Development (HUD), and the extent to which grant proceeds cover these administrative costs, we made site visits to four states: California, Georgia, Michigan, and Pennsylvania. We selected these states based on the amount of ESG funding distributed to these grantees for fiscal year 2009 and their geographic location across the country. We initially identified state-level grantees receiving more than \$1.5 million in ESG funding, in order to focus on states with relatively more ESG activity. This criterion reduced our target group to 20 states. We judgmentally selected the four states we visited by considering proximity of the capital city, where state officials are located, to the location of other grantees we could visit concurrently. Within the four states, we visited nine grantees (four state governments and five local governments) and 25 subgrantees. This allowed us to obtain illustrative observations from state officials, local government officials, and representatives of local homeless service providers on the operation of the ESG program, with an emphasis on type and level of spending to administer grants received under the program. Table 3 provides details on grantees' receipt of ESG funds in the states we visited.

**Table 3: ESG Grantee Summary for States Visited, Fiscal Year 2009**

	California	Georgia	Michigan	Pennsylvania
State government award	\$6.8 million	\$2.2 million	\$2.8 million	\$3.2 million
Total awards to local governments	\$13.4 million	\$1.4 million	\$2.9 million	\$6.4 million
Number of local governments with awards	46	8	10	22
Median local award	\$147,700	\$131,800	\$138,000	\$149,200
Largest local award	\$3.2 million Los Angeles (city)	\$368,900 Atlanta	\$1.6 million Detroit	\$2.3 million Philadelphia
Smallest local award	\$84,000 Fontana	\$91,800 Clayton County	\$81,000 Genesee County	\$85,100 Wilkes-Barre

Source: GAO analysis of U.S. Department of Housing and Urban Development data.

Note: Figures for state governments, total awards to local governments rounded to nearest \$100,000; local award figures rounded to nearest \$100.

The states we visited collectively received 24.5 percent of the total ESG funds HUD awarded to grantees in fiscal year 2009. Because we used a

nongeneralizable sample to select state grantees that had received larger amounts of ESG funding in fiscal year 2009, our findings cannot be used to make inferences about other grant recipients. Other grantees that we did not visit may have different characteristics that are unknown to us. However, we believe that our selection of the states and recipients was appropriate for our design and objectives, and that the selection provides valid and reliable evidence to support our work. We interviewed grantees and subgrantees in the states we visited to obtain information on administrative activities performed, the cost of performing those activities, and related topics.<sup>1</sup> We also interviewed HUD officials, plus representatives of national organizations involved with homeless issues, that are familiar with trends in charitable giving, or that represent local governments. We also researched the legislative history of the ESG program. We examined HUD guidance, federal regulations, and relevant Office of Management and Budget (OMB) circulars on allowability of administrative costs, including circulars A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, and A-122, *Cost Principles for Non-Profit Organizations*. Further, we reviewed state and local government ESG solicitation documents, such as Notices of Funding Availability and Requests for Proposal.

To determine how the ESG program's allowance for administrative costs compares with administrative cost allowances for selected other targeted federal homeless grant programs, plus selected other HUD formula-based grant programs, we interviewed officials from HUD and the Departments of Education, Labor, and Health and Human Services. We examined relevant federal statutes and regulations, as well as relevant OMB circulars. We also examined program guidance and documents, such as desk guides, resource manuals, solicitations for grant applications, and requests for applications, for the federal targeted homeless grant programs and the other HUD formula grant programs that we reviewed.

To determine how the nature or amount of administrative costs might be different under the changes Congress made to the ESG program in the Homeless Emergency Assistance and Rapid Transition to Housing Act of

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<sup>1</sup>We obtained cost information expressed as a percentage of the ESG grant amount. The amounts reported to us generally were estimates and not the product of formal accounting systems, because ESG grant recipients generally did not track ESG administrative costs specifically. We compared the cost figure to any administrative allowance received from ESG grant proceeds, also expressed as a percentage of the grant amount. We netted the two amounts to calculate any unfunded ESG administrative expenses.

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2009, we reviewed relevant provisions of the act detailing the newly allowable activities. We also interviewed HUD officials, state and local government officials, representatives of homeless organizations, and homeless service providers to obtain their perspectives.

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

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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Alicia Puente Cackley, (202) 512-8678, or [cackleya@gao.gov](mailto:cackleya@gao.gov)

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## Staff Acknowledgments

In addition to the individual named above, Marshall Hamlett, Assistant Director; William Chatlos; Meredith Graves; Kun-Fang Lee; Marc Molino; Christopher Schmitt; Jennifer Schwartz; and Paul Thompson made major contributions to this report.

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