

# Community Development Block Grant Procedures Manual



**City of Tucson**

## **Housing and Community Development**

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Housing and Community Development Block Grant Program provides financing to for-profit and not-for-profit organizations for a wide range of activities. The primary objective of the CDBG program is the development of viable urban communities through the provision of decent housing, a suitable living environment and expanded economic opportunities principally for persons of low- and moderate- income, defined as a person residing in a household with income at or below 80% of area median income adjusted for household size (LMI).

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## **CDBG Overview**

The U.S. Department of Housing and Urban Development (HUD) office of Community Planning and Development (CPD) awards Community Development Block Grants (CDBG) to units of local government for the implementation of a wide variety of housing, community and economic development activities.

The Community Development Block Grant (CDBG) program was enacted in 1974 under the Housing and Community Development Act to consolidate several other programs that addressed other housing, community and economic development needs. The Catalogue of Federal Domestic Assistance Number for CDBG entitlement programs is 14.218.

## **Entitlement Jurisdiction**

The City of Tucson is an eligible entitlement jurisdiction that receives a direct allocation of CDBG funds because the City's population is more than 50,000. To receive this direct allocation, the City submits a Consolidated Plan on a 5 year basis as well as Annual Action Plans describing the activities to be implemented with CDBG funding.

## **Program Regulations**

The CDBG program regulations found at 24 CFR Part 570 govern the City's use of program funds. The regulations are divided into several subparts, including the following subparts that are applicable to the City and its subrecipients:

- Subpart A – General Provisions
- Subpart C – Eligible Activities
- Subpart D – Entitlement Grants
- Subpart J – Grant Administration
- Subpart K – Other Program Requirements
- Subpart L – Loan Guarantees (Section 108 Loan Guarantee Program)
- Subpart O – Performance Reviews

## **Primary Objective**

The primary objective of the CDBG program is the development of viable urban communities through the provision of decent housing, a suitable living environment and expanded economic opportunities principally for persons of low- and moderate- income, defined as a person residing in a household with income at or below 80% of area median income adjusted for household size (LMI).

To achieve these objectives, the CDBG program includes a wide variety of eligible activities that may be implemented provided that a given activity meets one of three National Objectives, including:

- Benefit low- and moderate-income persons;
- Preventing and eliminating slum or blight; and
- Meeting an urgent need.

To ensure that CDBG primarily benefits LMI people, HUD requires that at least 70% of CDBG funds spent on activities other than program administration benefit LMI. This requirement may be met during a one (1), two (2), or three (3) year certification period that is specified in the Annual Action Plan certifications.

The City's Housing and Community Development Department (HCD) staff is responsible for the administration of multiple fiscal years of CDBG funding at any given point in the program year. The program year is consistent with the City's fiscal year (July 1-June 30). It is important to keep in mind that in a given month, HCD staff will be responsible for tasks associated with two (2) or more program years of CDBG funds.

## **City of Tucson Commitment:**

- HCD staff shall document its review of the eligibility of all activities proposed for CDBG funding prior to the inclusion of an activity in any funding recommendation or Action Plan.
- HCD staff shall document its review of each activity for compliance with the National Environmental Policy Act (NEPA) requirements prior to contracting, funding or disbursing funds. Such review shall be prepared by the Environmental Review Officer or other qualified staff and approved by the division's administrator.
- HCD staff shall prepare written agreements for each CDBG-funded activity to disseminate all applicable federal, state and local requirements to subrecipients and City Departments implementing CDBG-funded activities.
- HCD staff shall verify that participating contractors, subcontractors, consultants and subrecipients are not suspended, debarred or otherwise prohibited from

conducting business with any Federal Agency by checking the System for Award Management (SAM) database.

- HCD staff shall setup activities in IDIS and fund activities in IDIS to facilitate grant reporting and drawdown throughout the program year.
- HCD staff shall provide training and technical assistance to subrecipients and City Departments to foster program-wide compliance with the CDBG regulations and to facilitate practical understanding of the terms and conditions of written agreements.
- HCD staff shall collect performance reports for all activities that are “open” in IDIS not less than quarterly. Performance reports shall be evaluated to determine the sufficiency of program performance and to facilitate the entry of accomplishment data into IDIS.
- HCD staff shall review requests for reimbursement for compliance with the CDBG regulations and the terms and conditions of the written agreement between the City and subrecipient or City Department. Only those requests that are fully documented and compliant shall be paid.
- HCD staff shall draw down funds from the U.S. Treasury to reimburse the City for its expenditure of funds for CDBG activities. Drawdowns shall be conducted not less than quarterly, within 90 days of the end of each quarter, and may be conducted more frequently to meet business needs.
- HCD staff shall conduct a risk assessment of all open CDBG activities and shall conduct on-site monitoring reviews of all activities implemented by subrecipients or City Departments that meet the threshold criteria identified in the annual ‘Risk Assessment’.
- HCD staff shall establish tracking and data collection systems to support the preparation and submittal of a variety of compliance reports to HUD throughout each program year as required by the CDBG regulations and other federal requirements.
- HCD staff shall implement grant closeout procedures as part of IDIS activity completion and the preparation of the CAPER in order to verify records demonstrating that each CDBG activity has complied with 24 CFR Part 570 and to verify that all City of Tucson CDBG procedures have been followed in the implementation of each activity.

## **Eligible Activities**

This section includes a brief summary with information on each of the basic eligible activities noted above using information from the CDBG Regulations and HUD's Basically CDBG published July 2012 and available online at [www.onecpd.info](http://www.onecpd.info). For more detailed information, refer to the CDBG Regulations and Basically CDBG.

## **Housing Activities**

CDBG funds may be used for the rehabilitation of owner or renter housing that is occupied by LMI households. For rental properties, at least 51% of the units on the property must be rented to LMI households. Eligible costs include:

- Labor and materials,
- Replacement of principal fixtures and components of existing structures;
- Water and sewer connections;
- Installation of security devices, including smoke detectors; and
- Initial homeowner warranty premium;
- Hazard insurance premium (except when a grant is provided);
- Flood insurance premium;
- Conservation costs for water and energy efficiency;
- Landscaping, sidewalks, garages, and driveways when accompanied with other rehabilitation needed on the property; and
- Evaluating and treating lead-based paint.

Homeownership assistance using CDBG funds may be provided to an LMI household to purchase an existing or newly constructed home. Eligible costs include:

- Up to 50% of required down payment;
- Reasonable closing costs;
- Principal write-down assistance;
- Interest rate subsidy (buy down);
- Acquisition financing; and

- Acquisition of guarantees for mortgage financing from private lenders (i.e., assist homebuyers with private mortgage insurance).

New construction of housing is generally ineligible; however, the City may assist the new construction of housing by providing ancillary support for the development, including:

- Acquisition by public or nonprofit entities;
- Site clearance and assemblage; and
- Site improvements (if in public ownership).

### **Public Facilities and Improvements**

The acquisition, construction, reconstruction, rehabilitation or installation of public facilities and improvements are eligible pursuant to §570.201(c) and may be carried out by the City, a subrecipient or other nonprofit. The facilities may only be owned by the City, a subrecipient or other nonprofit. Eligible public facilities and improvements include:

- Senior centers;
- Handicapped centers;
- Homeless facilities;
- Youth centers;
- Neighborhood facilities;
- Parks and recreational facilities;
- Parking facilities;
- Solid waste disposal improvements;
- Flood drainage improvements;
- Water/sewer improvements;
- Street improvements;
- Sidewalks, curbs and gutters;
- Child care centers;
- Tree planting;

- Fire station / equipment;
- Health facilities;
- Abused/neglected children facilities;
- Asbestos removal; and
- Facilities for AIDS patients.

Costs associated with energy efficiency improvements, handicapped accessibility improvements (including improvements to buildings used for the general conduct of government), and architectural design features and other treatments aimed at improving the aesthetic quality of the facility such as sculptures or fountains are eligible.

### **Economic Development**

Pursuant to the CDBG Regulations at §570.203, CDBG funds may be used for activities related to economic development, such as those discussed below.

### **Special Economic Development**

CDBG funds may be used to undertake certain special economic development activities such as:

- Acquiring, constructing, reconstructing, rehabilitating, or installing commercial or industrial buildings, structures, and other real property equipment and improvements, including railroad spurs or similar extensions. These are economic development projects undertaken by the City or by nonprofits;
- Assisting a private, for-profit business, including grants, loans, loan guarantees, and technical assistance; and
- Providing economic development services in connection with otherwise eligible CDBG economic development activities.

### **Community-Based Development Organizations**

Economic development may also be undertaken by Community Based Development Organizations (CBDOs) to assist in neighborhood revitalization or community economic development. To be eligible, the CBDO must be carrying out neighborhood revitalization, community economic development or energy conservation projects. The following restrictions apply when a CBDO undertakes an activity:

- CBDOs may not carry out otherwise ineligible activities (i.e., general government buildings or expenses, or political activities); and

- CBDOs cannot carry out special economic development activities that do not meet the City's underwriting guidelines for such projects and HUD's mandatory public benefit standards. CBDOs are authorized to carry out public services that exceed the 15% public services cap when the services are specifically designed to increase economic opportunities through job training/placement and other employment support services. CBDOs may also provide public services of any type outside of the public services cap if the services are undertaken as part of a HUD-approved Neighborhood Revitalization Strategy Area (NRSA). CBDOs may not carry out program administration or planning activities that would result in the City exceeding the 20% limit on such expenditures.

### **Technical Assistance**

The City or a subrecipient may provide technical assistance to businesses. This activity involves providing technical assistance and training on topics such as business planning or accounting. This activity may be undertaken under several different eligibility categories, assuming that the activity will meet a national objective:

- As a part of a special economic development project;
- To the owner of a microenterprise;
- As a public service; and
- By a CBDO as a part of an eligible project.

### **Microenterprise Development**

Microenterprise development activities are designed to foster the development, support, and expansion of microenterprise businesses. A microenterprise is defined as a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise. A "person developing a microenterprise" refers to a person who has expressed an interest and who is, or after an initial screening process is expected to be, actively working toward developing a business that will be a microenterprise at the time it is formed. Eligible microenterprise activities include the provision of:

- Grants, loans, loan guarantees and other forms of financial support, for the establishment, stabilization, and expansion of microenterprises;
- Technical assistance, advice, and business services to owners of microenterprises and persons developing microenterprises;
- General support to owners of microenterprises and persons developing microenterprises including child care, transportation, counseling and peer support groups; and

- Training and technical assistance or other support services to increase capacity of the City or subrecipients to carry out microenterprise activities.

### **Commercial Rehabilitation**

These activities bring commercial structures up to code or improve their facades. If the structure is owned by a private, for-profit entity, the following limitations apply:

- Rehabilitation is limited to the exterior of the building and the correction of code violations; and
- Any other improvements are carried out under the special economic development activities category discussed above.

### **Public Facilities and Improvements**

These are public works that support economic development endeavors. Public works facilities and improvements include infrastructure projects such as off-site water, sewer, roads, drainage, railroad spurs and other types of public facilities or improvements.

### **Job training**

Job training involves providing skill building classes to employees or potential employees and can be an important part of an economic program. This activity can be undertaken:

- As a part of a special economic development project;
- As a public service;
- By a CBDO as a part of an eligible project; or
- As a part of microenterprise assistance package to the owner of a microbusiness for his or her employees.

It is important to note the following restrictions:

- Job pirating is prohibited under Section 588 of the Quality Housing and Work Responsibility Act of 1998. Job pirating refers to the use of federal funds to lure or attract a business and its jobs from one labor market to another.
- CDBG funds may not be used to assist for-profit businesses, including expansions, as well as infrastructure improvement projects or business incubator projects designed to facilitate business relocation if:

- o The funding will be used to assist directly in the relocation of a plant, facility or operation; and
- o The relocation is likely to result in a significant loss of jobs in the labor market area from which the relocation occurs.
- The following are definitions to assist in determining if a business location falls under these provisions:
  - o Labor Market Area (LMA): An LMA is an economically integrated geographic area where individuals can live and work within a reasonable distance or can readily change employment without changing their place of residence.
  - o Operation: A business operation includes, but is not limited to, any equipment, production capacity or product line of the business.
  - o Significant Loss of Jobs: A loss of jobs is significant if the number of jobs to be lost in the LMA in which the affected business is currently located is equal to or greater than one-tenth of 1% of the total number of persons in the labor force of that LMA, or in all cases, a loss of 500 or more jobs. A job is considered to be lost due to the provision of CDBG assistance if the job is relocated within three (3) years of the provision of assistance to the business. Notwithstanding the above definition, a loss of 25 jobs or fewer does not constitute a significant loss of jobs.
- Before directly assisting a business with CDBG funds the City shall include appropriate language in the written agreement with the assisted business to ensure that no pirating has occurred. In addition to other programmatic clauses, the written agreement shall include:
  - o A statement from the assisted business as to whether the assisted activity will result in the relocation of any industrial or commercial plant, facility, or operation from one LMA to another, and, if so, the number of jobs that will be relocated from each LMA.
  - o If the assistance will not result in a relocation covered by this section, a written certification from the assisted business that neither it, nor any of its subsidiaries, have plans to relocate jobs at the time the agreement is signed that would result in a significant job loss as defined in this rule; and
- The agreement shall provide for reimbursement of any assistance provided to, or expanded on behalf of, the business in the event that assistance results in a relocation prohibited under this section.

## **Public Services**

The CDBG Regulations found at §570.201(e) permit the use of CDBG funds for a wide variety of public services, including but not limited to:

- Employment services (e.g., job training);
- Crime prevention and public safety;
- Child care;
- Health services;
- Substance abuse services (e.g., counseling and treatment);
- Fair housing counseling; Education programs;
- Energy conservation;
- Services for senior citizens;
- Services for homeless persons;
- Welfare services (excluding income payments);
- Down payment assistance (refer also to Housing section); and
- Recreational services.

CDBG funds may be used to pay for labor, supplies, and material as well as to operate and/or maintain the portion of a facility in which the public service is located. This includes the lease of a facility, equipment, and other property needed for the public service.

To utilize CDBG funds for a public service, the service must be either:

- A new service; or
- A quantifiable increase in the level of an existing service which has been provided by the City or another entity on its behalf through state or local government funds in the 12 months preceding the submission of the City's Annual Action Plan to HUD.
- The regulations do not prohibit a grantee from continuing to provide funding for a public service at the same or decreased level in subsequent program years.

Income payments to an individual or family, which are used to provide basic services such as food, shelter (including payment for rent, mortgage, and/or utilities), or clothing are generally ineligible, unless provided as a loan. Additionally, income payments provided as a grant are eligible only under the following conditions:

- The income payments do not exceed three consecutive months; and
- The payments are made directly to the provider of such services on behalf of an individual or family.

### **National Objectives**

As part of each of the three (3) broad National Objectives, there are subcategories that more specifically delineate how to a National Objective will be met. Due to regulatory limitations there are certain National Objective subcategories that are compatible with each eligible activity. This section describes some of the key aspects of meeting National Objectives.

There are four ways an activity can meet the LMI National Objective:

#### **Low- and Moderate-Income Limited Clientele (LMC)**

An LMC activity provides benefits to a specific group of persons who directly use the CDBG-funded service or facility, rather than to everyone in a particular geographic area. To meet the LMC National Objective, at least 51% of the beneficiaries of each activity must be members of low- and moderate-income households. Most public service activities use one of the LMC subcategories. To qualify under any of the LMC subcategories, a limited clientele activity must meet one (1) of the following criteria:

In accordance with §570.208(a)(2)(i)(A), activities that are exclusively presumed low income must exclusively benefit any or a combination of the following groups: Abused Children, Elderly Persons, Battered Spouses, Homeless Persons, Severely Disabled Persons, Illiterate Adults, Persons Living with AIDS, and Migrant Farm Workers.

#### **RECORDS TO BE MAINTAINED**

The City, and its subrecipients, must collect and retain documentation showing that the activity is designed to be used exclusively by one of these presumed low-income groups, and the clientele meet the definition of one of those groups (i.e. a subrecipient administering a CDBG-funded Senior Services program should retain a copy of a photo I.D. or birth certificate showing each beneficiary is at least 62 years of age).

If the beneficiaries of a particular activity do not fall into one of the presumed low-income groups, then information on family size and income must be collected in accordance with §570.208(a)(2)(i)(B) or (C) to document that at least 51% of the beneficiaries are persons whose household income does not exceed the income limits adjusted for household size. HUD publishes annual income limits adjusted for household size for each region annually. Such information must be collected even if an activity is limited exclusively to LMI people.

The City, and its subrecipients, must collect and retain documentation showing the size and annual income of the household of each person receiving the benefit. The income of each household member must be considered, not just the person receiving the benefit. Examples of income documentation include paystubs, tax returns, Social Security letters, etc.

In limited circumstances, an activity may be of such nature and in such location that it can be reasonably concluded that the activity's clientele will primarily be low- and moderate-income people, as indicated at §570.208(a)(2)(i)(D). An example would be a day care center that exclusively serves residents of a public housing complex. The City should carefully examine such activities and received HUD's written approval before attempting to meet the LMC National Objective in this manner.

The City, and its subrecipients, must collect and retain documentation describing how the nature and the location of the activity establishes that it will be used predominantly by Low/Mod Income Persons.

The removal of architectural barriers meets the LMC National Objective at §570.208(a)(2)(ii), similar to the presumed low-income subcategory. Activities that remove material or architectural barriers to the mobility or accessibility of elderly persons or of adults meeting the Bureau of the Census' Current Population Reports definition of "severely disabled," can qualify under LMC so long as the activity does not qualify under LMA, LMH, and LMJ National Objectives (described below).

The City, and its subrecipients, must collect and retain documentation showing that barriers to mobility or accessibility have been removed and how the barrier removal was restricted to the extent feasible to one of the particular cases authorized under this subcategory.

### **Low- and Moderate-Income Area Benefit (LMA)**

LMA activities benefit all residents of a particular area that is comprised of 51% or more LMI households and is also primarily residential. The benefits of this type of activity are

available to all residents in the area regardless of income. Once the service area is determined, the City can determine if the area is comprised of at least 51% LMI residents by using the Census Method or Survey Method.

The first step to determine if an activity can meet the LMA National Objective is to determine the service area. The inclusion or exclusion of a particular portion of the City can significantly impact the percentage of LMI residents in the service area. Although service areas do not need to be coterminous with census tracts or other officially recognized boundaries, it is useful if the service area reasonably coincides with such boundaries because of the need to consider census data in the area. It is critical, however, that the service area determined by the City be the entire area served by the activity. In accordance with §570.208(a)(1)(v), HUD will generally accept the City's determination unless the nature of the activity or its location raises serious doubts about the claimed service area.

For example, a public park improvement must consider all those who will benefit from the improvement. If the public park is a large, citywide, or regional park, then the service area would be much larger than if the park was a small, neighborhood or pocket park. If the neighborhood park is used by, for example, all residents within a one mile radius, the City must include all census tracts and block groups that fall within that radius, even if it includes a combination of Low/Mod and non-Low/Mod areas.

To determine the service area, the following steps must be taken:

- A. Map the location of the proposed activity;
- B. Determine, based on the location and nature of the activity, which residents will use or benefit from the activity; and
- C. Map the surrounding areas determined to benefit from the proposed activity (usually represented in a radius drawn around the proposed activity).

The regulations at §570.208(a)(1)(vi) provide that, for purposes of determining whether a particular area contains a sufficient percentage of LMI people to qualify an activity under the area benefit criteria, available information from the latest Decennial Census shall be used to the fullest extent feasible. The HUD-provided census data commutes the number of persons that resided in each tract/block group at the time of the last census and the percentage of such persons who were LMI at that time. Using this information, the City (and HUD) can compute the percentage of LMI people residing in any combination of tracts/block groups in the City.

Using Census Data is the most common way of determining whether or not a particular service area contains a sufficient percentage of LMI people to qualify as an LMA. To

determine if a service area will meet the LMA National Objective using the census method, the following steps must be taken:

- A. Determine all of the block groups contained in the service area
- B. Add the total amount of persons residing in all block groups
- C. Add the total number of low/mod persons residing in all block groups
- D. Divide the total number low/mod residents by the total number of residents to determine the percentage of low/mod persons residing in the service area.
- E. If the percentage of low/mod persons residing in the service area at least 51%, the activity meets the LMA National Objective.

If the City believes that the available census data does not reflect current relative income levels in an area, or where the area does not coincide sufficiently well with census boundaries, the City may conduct a survey of the residents of the area. The City must obtain HUD's approval of the survey instrument and other methodological aspects of the survey for this purpose. HUD will approve the survey where it determines that it meets standards of statistical reliability that are comparable to that of the Decennial Census data for areas of similar size.

It should also be noted that a grantee cannot use a survey of the income of the users of a particular facility or improvement to qualify it under the LMC National Objective if the facility or improvement provides a benefit that is available to all the residents of an area. This limitation derives from the statutory provision at section 105(c) concerning activities that serve an area generally. Notwithstanding this prohibition, a grantee may want to survey the users of an existing facility or improvement to determine where the users live, for purposes of helping the grantee determine the area served by the facility/improvement.

To determine if a service area will meet the LMA National Objective using the survey method, the following steps must be taken:

- A. Make a written determination or finding that the available census data does not reflect the current relative income levels in the service area.
- B. Develop a survey method or instrument to collect the number of low/mod residents in the service area.
- C. Submit to and receive HUD approval of the survey method or instrument to be used.

- D. Conduct the survey, usually involving a door-to-door and/or mail survey to certify each household's income in the service area.
- E. Analyze the results of the survey, ensuring a minimum level of participation was received.
- F. If the percentage of low/mod persons residing in the service area is determined to be at least 51% as a result of the survey, submit the survey results to HUD for approval.
- G. HUD will issue a determination on whether or not the activity meets the LMA National Objective.

### **RECORDS TO BE MAINTAINED**

The records that the grantee must keep to demonstrate compliance under this subcategory include:

- Boundaries of the service area and the basis for determining those boundaries, and
- The percentage of Low/Mod Income Persons in the service area and the data used for determining that percentage (census or survey).

### **Low- and Moderate-Income Housing (LMH)**

The Low- and Moderate-Income Housing (LMH) subcategory is similar to the LMC subcategory, but the performance measure used is households instead of people. Section 105(c)(3) of the authorizing statute requires that an activity which assists in the acquisition, construction, or improvement of permanent, residential structures (including homeownership assistance) may qualify as benefiting LMI Households only to the extent that the housing is occupied by LMI Households.

Thus, the LMH subcategory described at §570.208(a)(3) only satisfies the LMI National Objectives if the housing will be occupied by an LMI Household upon completion of the activity. The housing can be either owner- or renter-occupied and can be either a single-family or multi-unit. When the housing is to be rented, the unit must be occupied by an LMI Household at affordable rents. The City is responsible for establishing the criteria it will use to determine rent affordability, and must make these criteria public.

Occupancy of an assisted housing activity by LMI Households under the LMH subcategory is determined using the following general rules:

- A. All assisted single unit structures must be occupied by LMI Households,
- B. An assisted two-unit structure (duplex) must have at least one unit occupied by an LMI Household, and
- C. An assisted structure containing more than two units must have at least 51% of the units occupied by LMI Households.

## **RECORDS TO BE MAINTAINED**

Pursuant to §570.506(b)(4), the records that the grantee must keep to demonstrate compliance under this subcategory include:

- A copy of the written agreement with each landlord or developer receiving CDBG assistance indicating the total number of dwelling units in each multi-unit structure assisted and the number of those units which will be occupied by Low/Mod Income Households after assistance.
- Total cost of the activity, including both CDBG and non-CDBG funds. • For each unit claimed to be occupied by a Low/Mod Income Household, the size and combined income of the household.
- For rental housing only:
  - o The rent charged (or to be charged) after assistance for each dwelling unit in each structure assisted; and
  - o Information as necessary to show the affordability of units occupied (or to be occupied) by Low/Mod Income Households pursuant to criteria established and made public by the grantee.
- For each property acquired on which there are no structures, evidence of commitments ensuring that the above criteria will be met when the structures are built.
- Where applicable, records documenting that the activity qualifies under the special conditions regarding the new construction of nonelderly, multi-family housing that will have Low/Mod Income occupancy of less than 51%.
- Where applicable, information showing that the housing units assisted, although located in different structures, are authorized to be considered to be located in a single structure under one of the special situations described previously.

## **Low- and Moderate-Income Jobs Benefit (LMJ)**

An LMJ activity creates or retains permanent jobs, at least 51% of which, on a full time equivalent (FTE) basis, are either held by LMI people or is considered to be available LMI people. The LMJ National Objective is usually associated with economic development activities.

- A. In counting the jobs to be used in the calculation for determining the percentage that benefit L/M income persons, the following policies apply:
- B. Part-time jobs must be converted to full-time equivalents (FTE) (e.g., a job that will require only working half time would count as only one-half a job);
- C. Only permanent jobs count; temporary jobs may not be included;
- D. Seasonal jobs are considered to be permanent for this purpose only if the season is long enough for the job to be considered as the employee's principal occupation;
- E. All permanent jobs created or retained by the activity must be counted even if the activity has multiple sources of funds; and
- F. Jobs indirectly created or retained by an assisted activity (i.e., "spin off" jobs) may not be counted.

## **RECORDS TO BE MAINTAINED**

The program records must document which jobs were actually created and retained, whether each such job was held by, taken by, or made available to a Low/Mod Income Person, and the full-time equivalency status of each job.

## **Slum-Blight National Objective**

The second of the CDBG national objectives has its roots in the Urban Renewal program, one of the major Federal programs that were terminated and replaced with the CDBG program upon its formation in 1974. Although the vast majority of persons who resided in the areas that qualified for assistance under the Urban Renewal program were Low/Mod Income Persons, the principal focus of that program was to eliminate major slums and other areas of blight within the community and preventing the return of blight to the treated areas. Because of some concerns that the CDBG program might not allow the continuance of the type of projects that were funded under the Urban Renewal program, the national objective concerning slums and blight was created.

In developing the criteria for qualifying under this national objective, HUD has taken considerable care to ensure that eligible activities clearly eliminate objectively determinable signs of slums or blight in a designated slum or blighted area or are strictly limited to eliminating specific instances of blight outside such an area ("spot blight"). There are three (3) subcategories under this national objective:

### **Slum/Blight Area Basis**

To qualify under the national objective of slums/blight on an area basis, an activity must meet all of the following criteria:

- A. The area must be officially designated by the grantee and must meet a definition of a slum, blighted, deteriorated or deteriorating area under State or local law. (For these purposes, it is not necessary to follow the formal procedures under State law for designating a slum or blighted area.)
- B. The area must exhibit the following physical signs of blight or decay:
  1. There must be a substantial number of deteriorated or deteriorating buildings throughout the area. As a "safe harbor," HUD will consider this test to have been met if either:
    - the proportion of buildings in the area that are in such condition is at least equal to that specified in the applicable State law for this purpose; or
    - in the case where the applicable State law does not specify the percentage of deteriorated or deteriorating buildings required to qualify the area, then at least one quarter of all the buildings in the area must be deteriorated or deteriorating; or
    - the public improvements throughout the area must be in a general state of deterioration. (For this purpose, it would be insufficient for only one type of public improvement, such as a sewer system, to be in a state of deterioration; rather, the public improvements taken as a whole must clearly exhibit signs of deterioration.)
- C. Documentation must be maintained by the grantee on the boundaries of the area and the conditions which qualified the area at the time of its designation.
- D. Activities to be assisted with CDBG funds must be limited to those that address one or more of the conditions which contributed to the deterioration of the area. (Note that this does not limit the activities to those that address the blight or decay itself, but it

allows an activity to qualify if it can be shown to address a condition that is deemed to have contributed to the decline of the area.)

### **Slum/Blight Spot Basis**

Pursuant to §570.208(b)(2), the elimination of specific conditions of blight or deterioration on a spot basis is designed to comply with the statutory objective for CDBG funds to be used for the prevention of blight, on the premise that such action(s) serves to prevent the spread to adjacent properties or areas. To comply with the national objective of elimination or prevention of slums or blight on a spot basis, i.e., outside a slum or blighted area, an activity must meet the following criteria:

- A. The activity must be designed to eliminate specific conditions of blight or physical decay not located in a designated slum or blighted area; and
- B. The activity must be limited to one of the following:
  - 1 Acquisition;
  - 2 Clearance;
  - 3 Relocation;
  - 4 Historic Preservation; or
  - 5 Rehabilitation of buildings, but only to the extent necessary to eliminate specific conditions detrimental to public health and safety.

### **Urban Renewal Area**

To qualify under the national objective of addressing slums/blight on the basis of urban renewal completion, an activity must:

- A. Be located within an Urban Renewal project area or Neighborhood Development Plan (NDP) action area; i.e., an area in which funded activities were authorized under an Urban Renewal Loan and Grant Agreement or an annual NDP Funding Agreement, pursuant to Title I of the Housing Act of 1949; and
- B. Be necessary to complete the Urban Renewal plan, as then in effect. (This includes the initial land redevelopment called for by the plan.)

## **Urgent Need National Objective**

Pursuant to §570.208(c), to comply with the national objective of meeting community development needs having a particular urgency, an activity must be designed to alleviate existing conditions which the grantee certifies:

- A. Pose a serious and immediate threat to the health or welfare of the community,
- B. Are of recent origin or recently became urgent,
- C. The grantee is unable to finance the activity on its own, and
- D. Other resources of funding are not available to carry out the activity.

A condition will generally be considered to be of recent origin if it is developed or became critical within 18 months preceding the grantee's certification.

## **RECORDS TO BE MAINTAINED**

The records should include:

- A. A description of the condition that was addressed, showing the nature and degree of seriousness of the threat it posed;
- B. Evidence that the grantee certified that the CDBG activity was designed to address the urgent need;
- C. Information on the timing of the development of the serious condition; and
- D. Evidence confirming that other financial resources to alleviate the need were not available.

## **Eligibility Review Process**

HCD staff shall document its review of the eligibility of all activities proposed for CDBG funding prior to the inclusion of an activity in any funding recommendation or Action Plan.

## **Activity Eligibility**

In this section of the CDBG Eligibility Review, it is important to classify the activity under one of the IDIS matrix codes. The matrix codes associate an activity with specific requirements that often differ significantly from those of other matrix codes. For

example, there is a statutory and regulatory limitation on the amount of CDBG funds which may be used for activities assisted under the category of Public Services (Matrix Code 05). However, some services that are assisted under the program may also be eligible under a category other than Public Services and, if properly classified, would therefore not be subject to the 15% public service cap.

The statute and regulations also place special requirements on certain categories of eligible activities, such as Code Enforcement and Special Economic Development Activities. An improperly classified activity may be unnecessarily subject to additional program requirements. Conversely, an activity may be carried out in a manner that does not meet the requirements of the selected category but it might be eligible under the requirements of another category that was not selected.

### **Meeting a National Objective**

Once an activity has been determined eligible, the next consideration in the preparation of the CDBG Eligibility Review is how the activity meets a National Objective. As indicated earlier, CDBG includes three broad National Objectives including:

#### **Conformance with Consolidated Plan – Strategic Plan Goals**

After selecting the appropriate National Objective, staff must then associate the activity with one of the Consolidated Plan – Strategic Plan Goals enumerated in the current 5-Year Consolidated Plan. Each Strategic Plan Goal delineates the City's objective, the performance indicator, and how many units of that performance indicator will be served during the 5-year period. If a CDBG application proposes an activity that does not conform to any of the Strategic Plan Goals, it may not be funded as part of an Action Plan unless the City amends its 5-Year Consolidated Plan – Strategic Plan goals to indicate a need for a particular activity in the community.

This section of the CDBG Eligibility Review requires staff to evaluate the unmet need for the selected Strategic Plan Goal going into the next Action Plan period. To determine unmet need, staff subtracts the following from the 5-Year Strategic Plan goal:

- A. Prior accomplishments under this goal reported in prior CAPERs during the 5-year period; and
- B. Action Plan activity goals for the current year in progress.

The unmet need represents how many more units of a particular performance indicator are needed to meet the 5-Year Strategic Plan Goal.

## **Local Strategies**

Conformance with other local strategies is another key consideration in the CDBG Eligibility Review Process. The extent to which a proposed activity conforms to the policy objectives of a grantee's governing body may ultimately be a deciding factor on whether or not the activity is funded as part of the Action Plan.

## **HUD Outcome-Objective Performance Measurement Framework**

This section of the CDBG Eligibility Review documents how a particular activity fits into HUD's Outcome-Performance Measurement Framework, which includes three (3) objectives and three (3) outcomes. Determining which category to use is generally informed by which combination of objective and outcome best describes the purpose of the activity.

Consolidated Plan-Strategic Plan Goals are already associated with a particular combination of outcome and objective; therefore, this section of the CDBG Eligibility Review merely recapitulates information that is already included in the Consolidated Plan-Strategic Plan. The outcomes and objectives will appear on an IDIS screen and the grantee will choose from the options presented.

The three (3) objectives include:

### **Suitable Living Environment**

In general, this objective relates to activities that are designed to benefit communities, families, or individuals by addressing issues in their living environment.

### **Decent Housing**

The activities that typically would be found under this objective are designed to cover the wide range of housing possible under HOME, CDBG, HOPWA or ESG. This objective focuses on housing programs where the purpose of the program is to meet individual family or community needs and not programs where housing is an element of a larger effort, since such programs would be more appropriately reported under Suitable Living Environment.

### **Creating Economic Opportunities**

This objective applies to the types of activities related to economic development, commercial revitalization, or job creation.

The three outcome categories include:

## **Availability/Accessibility**

This outcome category applies to activities that make services, infrastructure, public services, public facilities, housing, or shelter available or accessible to low-and moderate-income people, including persons with disabilities. In this category, accessibility does not refer only to physical barriers, but also to making the affordable basics of daily living available and accessible to low and moderate income people where they live.

## **Affordability**

This outcome category applies to activities that provide affordability in a variety of ways in the lives of low- and moderate-income people. It can include the creation or maintenance of affordable housing, basic infrastructure hook-ups, or services such as transportation or day care.

## **Sustainability**

This outcome promotes livable or viable communities through activities that improve communities or neighborhoods, helping to make them livable or viable by providing benefit to LMI people or by removing or eliminating slums or blighted areas, through multiple activities or services that sustain communities or neighborhoods.

## **Environmental Review Process**

HCD staff shall document its review of each activity for compliance with the National Environmental Policy Act (NEPA) requirements prior to contracting, funding or disbursing funds. Such review shall be prepared by the Environmental Review Officer

All CDBG activities are subject to requirements of HUD environmental review regulations at 24 CFR Part 58. These regulations implement HUD's responsibilities for use of federal funds under NEPA. The HUD environmental review process must be completed before CDBG funds may be accessed for the City's CPD-funded activities, or before the purchase of any land or buildings, or start of any work on a proposed project, even with non-HUD funds. The aforementioned conditions are known as "choice-limiting decisions" and this limitation applies to all participants involved in a CDBG-funded activity.

There are five (5) levels of review identified in Part 58 that apply to CPD programs:

The primary objective of the environmental review is to identify specific environmental factors that may be encountered at potential project sites and to develop procedures to ensure compliance with regulations pertaining to these factors. There is no standard set

of review procedures that makes sense for every program. Therefore, the HUD environmental review is designed to produce program-specific environmental review procedures. When the environmental review process is complete, the City may commit CDBG funds.

Subsequent to the completion of the environmental review, the City may enter into agreements and fund activities. It is important to note that the City is also responsible for ensuring that any remediation or mitigating conditions identified as part of the NEPA review are completed during the course of the project and that documentation is maintained in the CDBG activity file.

## **RECORDS TO BE MAINTAINED**

The entire Environmental Review Record, all correspondence and any source documentation shall be maintained as part of the CDBG activity file. Additionally, documentation of compliance with any remediation or mitigating conditions identified as part of the NEPA review must be maintained.

For more information on the NEPA Environmental Review Process, please refer to CPD Procedural Manual Volume 1 – General CPD Requirements.

## **Debarment and Suspension**

HCD staff shall verify that participating contractors, subcontractors, consultants and subrecipients are not suspended, debarred or otherwise prohibited from conducting business with any Federal Agency by checking the System for Award Management (SAM) database.

Federal funds granted by HUD may not be used to directly or indirectly employ, award contracts to, or otherwise engage the services of any contractor or subrecipient during any period of debarment, suspension, or placement of ineligibility status. Prior to entering into any HUD-funded agreement, the City must check all contractors, subcontractors (including sub-tier contractors), consultants, and subrecipients against the System for Award Management (SAM), found at <https://www.sam.gov>.

A debarment sanction means that an individual, organization and its affiliates are excluded from conducting business with any Federal Agency government-wide. Depending upon the outcome of an investigation or legal proceeding, a suspension may lead to debarment. Debarment is the most serious compliance sanction and is generally

imposed for a three-year period. However, debarment can be imposed for a longer period of time, if determined to be necessary to protect the public interest.

The administrative requirements at 24 CFR 85.35 prohibit grantees and subgrantees from making any award or permitting any award (subgrant or contract) at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs subject to 2 CFR part 2424.

HUD policies and procedures concerning debarment and suspension are contained at 2 CFR Part 180 and 2 CFR Part 2424:

- 2 CFR Part 180 provides Office of Management and Budget (OMB) guidance for Federal agencies on the government-wide debarment and suspension system for non-procurement programs and activities.
- 2 CFR Part 180 Subpart B describes which contracts are covered, including procurement and non-procurement contracts. • 2 CFR Part 2424 adopts the OMB guidance on non-procurement debarment and suspension, and supplements it with HUD-specific clarifications and additions.
- 2 CFR Part 2424 Subpart B expands the covered contracts to include any contract, regardless of tier, that is awarded by a contractor, subcontractor, supplier, consultant, or its agent or representative in any transaction, if the contract is to be funded or provided by HUD under a covered non-procurement transaction.

In general, the City must check the eligibility of every entity (contractor, subgrantee, consultant, etc.), and the principals and/or owners of those entities, prior to entering into an agreement and dispersing funds. The City must also document that eligibility and debarment status was checked, including the date the check was made.

To check the suspension and debarment status of a firm and/or individual, the City must search the SAM. The following steps outline the process for checking the debarment or suspension status of a company or individual:

1. Go to <https://www.sam.gov> and select "Search Records".
2. In the search box, type the name of the company or individual you are looking for.
3. In the event that a company is registered in the CCR system, you will get a result with a company name. If the "Has Active Exclusion" indicates "No," the company is not excluded from Federal participation. If "Yes," do not proceed with the proposed transaction with the excluded company. In the event that a company is not registered in the CCR system, you will receive a message indicating "No records found for current search."

4. Print and file your search results.

5. The same search procedure should be followed for individual names. Once you search the company/organization name, repeat the process for all principals, owners, and partners affiliated with the company.

## **RECORDS TO BE MAINTAINED**

SAM printout for each contractor, subcontractor, subrecipient, etc.

### **CDBG Written Agreements**

HCD staff shall prepare written agreements for each CDBG-funded activity to disseminate all applicable federal, state and local requirements to subrecipients and City departments implementing CDBG-funded activities.

The City is responsible for managing the day to day operations of its CDBG program, ensuring that CDBG funds are used in accordance with all program requirements delineated in written agreements, and taking appropriate action when performance problems arise. The performance of each subrecipient or contractor must be reviewed periodically (see "Monitoring" section of this CPD Procedural Manual). The CDBG written agreement is the basis for implementation and compliance monitoring.

For all subrecipients and public service agencies, the City shall use a Subrecipient Agreement. For all City implemented activities, the City shall use a Memorandum of Understanding (MOU) between HCD and the implementing City Department.

When properly written and executed, a written agreement is a valuable management tool for verifying compliance and monitoring performance. The agreement explains what the subrecipient or contractor agrees to do in exchange for receiving CDBG funds, including any documentation requirements to demonstrate regulatory compliance. The City must comply with all of its obligations under its agreement with HUD to assure that all agreements contain the required provisions necessary to comply with the program regulations.

Agreements shall be prepared by the Project Coordinator using templates approved as to form by the City Attorney, and transmitted for review using the Contract Routing Log.

## **Training and Technical Assistance**

HCD staff shall provide training and technical assistance to subrecipients and City Departments to foster program-wide compliance with the CDBG regulations

Training and Technical Assistance are important activities that promote greater understanding of the CDBG regulations, facilitate the implementation of CDBG-funded activities, and establish documentation protocols for the City and its subrecipients or implementing City Departments.

Training and Technical Assistance can take many forms, including but not limited to:

- One-to-One Technical Assistance;
- Congregate Technical Assistance;
- Answering questions by phone or e-mail;
- Providing advice/direction as part of site visits or subrecipient monitoring;
- Disseminating critical information to subrecipients and City Departments;
- Providing reference materials; or
- Promoting the availability of HUD-sponsored training or other capacity building opportunities.

## **Performance Reports and Evaluation**

HCD staff shall collect performance reports for all activities that are “open” in IDIS not less than quarterly. Performance reports shall be evaluated to determine the sufficiency of program performance and to facilitate the entry of accomplishment data into IDIS.

Depending on the eligibility, beneficiaries and National Objective of each activity, the reporting requirements to HUD in the IDIS system will vary. To capture all of the HUD-required data elements necessary to complete activities in IDIS and to complete the CAPER at year-end, several reporting formats have been developed for use by subrecipients and City Departments implementing CDBG-funded activities.

## **Evaluating Accomplishments Versus Goals**

Review the performance report to determine if the subrecipient is on track to meet its annual goal as appropriate for the point-in-time of the review. Note: The nature of some

activities will result in no accomplishments until the third or fourth quarter of the year due to the manner in which the activity is implemented.

In instances where an activity is not on a linear pace toward achieving 100% of its goal, the subrecipient or City department should include a written explanation in the narrative section of the performance report delineating how and when the annual goals will be met.

### **Corrective Action for Underperforming Projects**

If a subrecipient is not on track to meet the annual goal:

- Question subrecipient on why? Is there an implementation issue that will result in goal attainment in 3rd or 4th quarter?
- Schedule meeting if necessary to discuss alternatives, provide technical assistance
- Determine if subrecipient agreement needs to be amended or terminated.

### **Entering Accomplishment Data in IDIS**

Subsequent to receipt of reports, project coordinator enters data into IDIS as appropriate to each open activity. For technical information on the entry of accomplishment data, refer to IDIS Online for CDBG Entitlement Grantees.

### **IDIS Flags and Remediation Plans**

To prevent the occurrence of long-standing, open activities, cancelled activities with draws, and draws revised from one activity to another, IDIS provides activity flags for the CDBG Program. The system flags activities and requires justifications by grantees and field office approval for:

- Activities that have had no draws for a year;
- Activities that have not reported accomplishments for three years;
- Activities that have 80% of their funding amount disbursed and no accomplishments reported; and
- Activities that grantees request to cancel with draws.

For each activity "Awaiting Grantee's Required Explanation and Remediation Plan," the project coordinator should click on the blue link for "Explain."

A screen will appear where staff can enter the reason for the delay e.g., why the activity did not have draws for one year or does not have accomplishments. Enter the

Remediation Plan and the remediation actions to be undertaken within six (6) months to resolve the flag, as well as the target completion date.

Subsequent to submittal in the system, the activity will be marked for Field Office approval or rejection. In the event of Field Office rejection, the CPD Representative in the local Field Office assigned to the City will contact the City to provide instructions on what actions to take next and how to satisfactorily resolve the issue within a timeframe that is acceptable to HUD. Throughout the process, close coordination with the CPD Representative will be required in order to ensure that all CDBG-funded activities are on track for successful completion in IDIS.

## **RECORDS TO BE MAINTAINED**

Performance Reports in each CDBG activity file.

### **Requests for Reimbursement**

HCD staff shall review requests for reimbursement for compliance with the CDBG regulations and the terms and conditions of the written agreement between the City and the subrecipient or City Department. Only those requests that are fully documented and compliant shall be paid.

To ensure that CDBG funds are administered in accordance with the Uniform Administrative Requirements found at 24 CFR Part 85, the City operates the CDBG program on a reimbursable basis so that all documentation necessary to demonstrate compliance with the regulations can be collected, reviewed and filed prior to payment with federal funds. Both the City and subrecipients operate on a reimbursement basis so that federal funds are not drawn down in IDIS until the City is certain that all financial transactions occurred in a manner that fully documents compliance.

Subrecipients typically submit monthly Requests for Reimbursement to include a detailed summary of the request and supporting documentation including:

- 1 For personnel costs: Employee timecards delineating hours worked on the CDBG activity and payroll registers showing the total cost to the employer for the employee salary and benefits; and
- 2 For non-personnel costs: Records of appropriate procurement, invoice and payment of the invoice.

The following steps are involved in the approval process for a Reimbursement Request:

1. Upon receipt of a Reimbursement Request, the project coordinator will:

- Review the Reimbursement Request form, including all supporting documentation to ensure that it substantiates the amount of CDBG funds requested and demonstrates compliance with the applicable Uniform Administrative Requirements and OMB Circulars;
- Signs the Request for Reimbursement form; and
- Routes Pay Req to financial staff.

### **IDIS Drawdowns**

HCD staff shall draw down funds from the U.S. Treasury to reimburse the City for its expenditure of funds for CDBG activities. Drawdowns shall be conducted not less than quarterly, within 90 days of the end of each quarter, and may be conducted more frequently to meet business needs.

Subsequent to reimbursing subrecipients for costs incurred from City general funds, the City requests reimbursement from HUD through the IDIS system periodically throughout the fiscal year. In general, drawdowns are conducted at least quarterly. Depending on business need, drawdowns may be conducted more frequently.

In preparation for a drawdown, the Financial Analyst will evaluate City expenditure reports to determine the amount due to the City based on expenditures since the last drawdown. The Financial Analyst will prepare a drawdown summary and submit it to senior financial section staff for review. Once the Financial Analyst and senior fiscal staff are in agreement, the Financial Analyst will enter the voucher in IDIS and notify the senior fiscal staff that it is ready for approval. The draw will then be logged into IDIS and drawdown approved.

### **RECORDS TO BE MAINTAINED**

Expenditure reports; PR05 Drawdown records in fiscal section activity file.

## **Subrecipient Monitoring**

HCD staff shall conduct a risk assessment of all open CDBG activities and shall conduct on-site monitoring reviews of all activities implemented by subrecipients or City Departments that meet the threshold criteria identified in the annual risk assessment.

The City is responsible for ensuring that subrecipients comply with all regulations and requirements governing the administrative, programmatic and financial management of CDBG funds. Monitoring is an ongoing process beginning with the review of all activities for eligibility and concluding with grant closeout.

The exception to this approach involves situations where the terms and conditions of the subrecipient's CDBG written agreement involve compliance beyond the term of the agreement, such as in the event that CDBG funds were used to acquire or improve property. In those situations, the property must continue to meet a CDBG National Objective for a minimum period of five (5) years, unless a longer period is specified in the CDBG written agreement. In those situations, the City will implement procedures within the CDBG written agreement for ongoing compliance monitoring and will note those any additional monitoring duties within the CDBG file.

To ensure full compliance with the regulations, the City takes a proactive approach to monitoring, including desk monitoring and on-site monitoring that involves several tasks throughout the program year.

### **Desk Monitoring**

Each of the Desk Monitoring tasks correspond with other sections of this Procedural Manual. Proper documentation of the implementation of the Desk Monitoring tasks in the CDBG activity file will demonstrate to HUD that the City is actively engaged in compliance monitoring throughout the entire grant process. The Desk Monitoring process also serves to inform the City's risk assessment that is used to determine which subrecipients will receive an on-site monitoring visit.

### **Risk Assessment**

The annual Risk Assessment serves as the City's monitoring plan each year. The Risk Assessment is designed to match staff resources with the highest risk activities based on indicators of need and capacity amongst subrecipients.

### **On-Site Monitoring**

The on-site monitoring visit is a collaborative effort between the subrecipient and City staff. The City monitoring team may consist of the assigned project coordinator as well as either a Financial Analyst or a community services project supervisor.

The on-site monitoring process begins with a telephone call or an e-mail to the subrecipient from the project coordinator indicating that the subrecipient has been selected for on-site monitoring. The purpose of the call is to coordinate the date and time of the on-site monitoring visit, to provide information on the nature and scope of the review, and to confirm that key subrecipient staff will be available for the date and time selected.

Subsequent to the introductory telephone call or e-mail, the project coordinator will prepare the Intent to Monitor Letter. This letter is addressed to the Chief Executive Officer of the subrecipient with copies to key programmatic and financial staff. The letter should be sent not less than 30 days prior to the agreed upon date of the on-site monitoring visit.

The Intent to Monitor Letter indicates the purpose of the monitoring visit as well as the proposed date, time and location of the monitoring visit.

This meeting provides the monitoring team with an opportunity to review the subrecipient's progress in the implementation of the activities to be monitored and to begin filling known information into the monitoring tool ahead of time. This is also an opportunity to discuss any areas of concern in advance of the on-site monitoring visit.

Information available to the City in the CDBG activity file that should be reviewed by the monitoring team prior to the visit include:

- Subrecipient application for funding;
- Eligibility Review;
- CDBG written agreement;
- Performance Reports;
- Reimbursement Requests;
- Correspondence;
- Prior monitoring reviews; and
- Copies of subrecipient's most recent audits.

The on-site monitoring visit begins with an entrance conference between the City's monitoring team and key subrecipient staff, including the Chief Executive Officer, programmatic and financial staff. The purpose of the entrance conference is to ensure that the subrecipient has a clear understanding of the purpose, scope and schedule for the monitoring.

Subsequent to the entrance conference, the monitoring team conducts its assessment of subrecipient file documentation to address assigned sections of the Monitoring Tool. Generally, the review will result in a determination that the subrecipient complied with a given section or that a finding or concern is identified. A finding is a condition where the subrecipient has violated an applicable regulatory provision. A concern is a condition that if not corrected, may lead to findings or may result in deficient program performance. Where appropriate, copies of documentation should be obtained to support any findings or concerns identified.

Subrecipient staff should be interviewed during the assessment phase of the on-site monitoring visit to test their depth of understanding of the regulations and the terms and conditions of the CDBG written agreement. Staff interviews are the City's opportunity to assess how well the subrecipient knows the CDBG program regulations and how those regulations are applied in the implementation of the activity. The assessment of documentation and the information gained from staff interviews will assist City staff in determining whether or not additional technical assistance to the subrecipient is required in order to ensure proper implementation of each CDBG-funded activity.

At the conclusion of the assessment phase of the on-site monitoring visit, an exit conference should be conducted with the same attendees as the entrance conference. The purpose of the exit conference is to:

- Present the preliminary results of the monitoring, including findings that will require additional consultation with the project coordinator in order to close the monitoring review;
- Secure additional information to solidify or resolve any preliminary findings or concerns;
- Provide an opportunity for the subrecipient to correct any misconceptions or misunderstandings;
- Establish timeframes for the resolution of any findings; and
- If applicable, provide an opportunity for the subrecipient to report on steps the organization may already be taking to address areas of noncompliance or nonperformance.

Subsequent to the on-site monitoring visit, any findings or concerns identified will be transmitted to the subrecipient in writing via e-mail with requests for corrective actions to be undertaken. The resolution of findings occurs informally between the subrecipient and the project coordinator prior to the issuance of the Monitoring Results Letter

(report). Generally, the project coordinator should be in a position to draft the report within thirty days of the on-site monitoring visit.

The Monitoring Results Letter will provide a significant history of the on-site monitoring visit, including details on all findings and concerns identified and how those findings and concerns were resolved between the subrecipient and the City. The Monitoring Results Letter is also an opportunity to recognize the successes of the subrecipient in the implementation of their CDBG-funded activities and how those successes contribute to the City's achievement of its 5-year Strategic Plan goals. Through the issuance of the Monitoring Results letter subsequent to the satisfactory resolution of any findings of non-compliance or concerns, the monitoring review is closed.

### **High Risk Subrecipients**

It is the intent of the City to cultivate positive partnerships with high-performing subrecipients. However, in the event that a subrecipient does not perform to expectations, the City has a responsibility to its residents and to HUD to address problems with subrecipients directly and fairly. There are three (3) progressive approaches to address subrecipients that are determined to be high risk, including early intervention, intervention for more serious or persistent problems and finally the imposition of sanctions.

- Early Intervention involves any combination of the following:
  - o The development of strategies with the subrecipient that include additional training and technical assistance; or
  - o Requiring more frequent or more thorough reporting by the subrecipient;or
  - o Conducting more frequent on-site monitoring visits.
- Intervention for More Serious or Persistent Problems involves any combination of the following measures:
  - o Placing restrictions on the subrecipient's payment requests; or
  - o Disallowance of subrecipient expenses; or
  - o Requiring repayment of CDBG funds expended in an ineligible manner; or
  - o Imposing probationary status whereby the subrecipient is limited in its ability to conduct certain business without prior review and written approval of the City.

- Imposing Sanctions involves any combination of the following measures:
  - o Temporarily suspending the subrecipient; or
  - o Not renewing or funding the subrecipient in subsequent program year(s); or
  - o Termination of the subrecipient's activity for the current program year; or
  - o Initiation of legal action.

## **RECORDS TO BE MAINTAINED**

Complete on-site monitoring information should be placed in the corresponding CDBG activity file. The file includes, but is not limited to:

- Intent to Monitor Letter;
- Monitoring Tool;
- Supporting documentation;
- E-mail correspondence between subrecipient and project coordinator to resolve any findings; and
- Monitoring Results Letter (report).

## **Reporting to HUD**

HCD staff shall establish tracking and data collection systems to support the preparation and submittal of a variety of compliance reports to HUD throughout each program year as required by the CDBG regulations and other federal requirements.

HUD requires the submittal of four (4) periodic reports throughout the program year besides the Consolidated Annual Performance and Evaluation Report that is submitted annually within 90 days of the end of the program year. The periodic reports include the SF-425 Federal Financial Report, the Contract-Subcontract Activity Report, the Semi-Annual Labor Standards Enforcement Report and the Section 3 Summary Report.

Each of these reports documents and certifies critical program compliance information that is used in turn by HUD to assess the City's risk as part of HUD's annual risk assessment to determine which of their grantees will receive on-site monitoring visits. For this reason, it is critical that each of these periodic reports is prepared accurately and submitted to HUD timely.

## **SF-425 Federal Financial Report**

HUD requires CPD grant recipients to periodically submit reports on the financial progress of the CDBG grant. The Office of Management and Budget consolidated the two most common financial reports, the Financial Status Report (FSR or SF-269/SF-269A) and the Federal Cash Transaction Report (FCTR or SF-272/SF-272A), into a single form known as the SF-425 Federal Financial Report. This consolidation established government-wide standards for reporting periods and due dates. The SF-425 is due to the HUD Field Office Financial Analyst within 30 days subsequent to the end of each quarter. Since the City operates its grants with HUD on a reimbursement basis, the SF-425 will consistently report either a zero balance or negative cash on hand.

## **Contract-Subcontract Activity Report**

The Contract-Subcontract Activity Report is used by HUD to monitor and evaluate MBE activities against the total program activity and the designated minority business enterprise (MBE) and Women business enterprise (WBE) goals. HUD requires the information to provide guidance, oversight and for the development of MBE and WBE goals. The report must be submitted to the Field Office's Fair Housing and Equal Opportunity (FHEO) representative within 30 days of the end of the Federal Fiscal year.

## **Semi-Annual Labor Standards Enforcement Report**

The HUD-4710 Semi-Annual Labor Standards Enforcement Report, covering the periods of October 1-March 31 and April 1-September 30 is a report to the Field Office Labor Relations representative within 7 calendar days subsequent to the end of the period covered, or upon request.

The Semi-Annual Labor Standards Enforcement Report provides information on contracts awarded that must comply with the Davis-Bacon Act and/or the Contract Work Hours and Safety Standards Act. Specifically, the report lists each project/contract awarded during the reporting period for which DBRA or CWHSSA is applicable.

The report also includes information on enforcement activities undertaken by the City during the reporting period. The information reported on contracts (Part I) and the information reported on enforcement activity (Part II) is separate and should only be reported to HUD on the HUD-4710 form once. For example, a contract should only be reported on the report corresponding to the period when the contract was awarded. Similarly, enforcement activity is aggregated and reported on the form covering the period when the enforcement activity took place. Therefore, enforcement activity may be reported for projects/contracts that appeared on any prior report as a contract awarded under Part I.

### **Section 3 Summary Report**

The HUD 60002 Section 3 Summary Report provides details on the City's accomplishment of the Section 3 goals prescribed at 24 CFR Part 135. The City's Section 3 Plan delineates the City's approach to compliance with Section 3. In addition to including the report with the CAPER, it must be submitted to HUD online at <http://www5.hud.gov:63001/apps/po/e/srs/Public/form.cfm>.

### **RECORDS TO BE MAINTAINED**

Copies of each report shall be maintained in the CDBG Administration File.

### **Grant Closeout / IDIS Completion**

HCD staff shall implement grant closeout procedures as part of IDIS activity completion and the preparation of the CAPER in order to verify records demonstrating that each CDBG activity has complied with 24 CFR Part 570 and to verify that all City of Tucson CDBG procedures have been followed in the implementation of each activity.

The City is responsible for ensuring compliance with all applicable requirements associated with the use of CPD grant funds for housing, economic and community development activities. The City must maintain records demonstrating that it has met all of its obligations to HUD as delineated in the Action Plan certifications that are signed and submitted to HUD with the SF-424 grant application. Grant Closeout is an integral internal management process by which programmatic, financial and management staff verify that appropriate records demonstrating compliance with all applicable HUD regulations is on file, ready for audit.