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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

- CFDA 14.218 COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS**
- CFDA 14.253 COMMUNITY DEVELOPMENT BLOCK GRANT ARRA ENTITLEMENT GRANTS (CDBG-R) (RECOVERY ACT FUNDED)**
- CFDA 14.254 COMMUNITY DEVELOPMENT BLOCK GRANTS/SPECIAL PURPOSE GRANTS/INSULAR AREAS - (RECOVERY ACT FUNDED)**

I. PROGRAM OBJECTIVES

The primary objective of the Community Development Block Grants (CDBG)/Entitlement Grants program (large cities and urban counties) (24 CFR part 570 subpart D) is to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. This objective is to be achieved in two ways. First, a grantee can only use funds to assist eligible activities that meet one of three national objectives of the program: benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet community development needs having a particular urgency. Second, the grantee must spend at least 70 percent of its funds, over a period of up to three years as specified by the grantee in its certification, for activities that address the national objective of benefiting low- and moderate-income persons (24 CFR section 570.200).

The Housing and Economic Recovery Act of 2008 (HERA) (Pub. L. No. 110-289, July 30, 2008) provided funds for emergency assistance for redevelopment of abandoned and foreclosed homes and residential properties, and provides under a rule of construction that, unless HERA provides otherwise, the grants are to be considered CDBG funds. The grant program under Title III is referred to as the Neighborhood Stabilization Program (NSP). **The NSP funding covered in this cluster is the funding provided under HERA and is not the NSP funding provided under ARRA. These HERA funds are also referred to as NSP1 in the Neighborhood Stabilization Program (see CFDA 14.256, Section II, "Program Procedures").**

Title XII of the Recovery and Reinvestment Act of 2009 (ARRA)(Pub. L. No. 111-5) provided additional funding under the CDBG program. The focus of this funding (referred to as CDBG-R) is on infrastructure improvements that stimulate the economy through measures that modernize the nation's infrastructure and improve energy efficiency.

The CDBG Special Purpose Grants/Insular Areas (Insular CDBG-R) program is authorized under Section 106(a)(2) of the Housing and Community Development Act and funding is provided in Title XII of ARRA with the same objectives as the CDBG-R.

II. PROGRAM PROCEDURES

The CDBG Entitlement Grants Program provides grants to metropolitan cities and urban counties which must submit certain certifications and a one-year action plan as to how they propose to use the funds for community development activities. The grant amount is determined by the higher of two formulas that consider a community's population, poverty level, extent of overcrowded housing, age of housing, and growth lag (42 USC 5306(b)).

The NSP grant is a special CDBG allocation to address the problem of abandoned and foreclosed homes. HERA established the need, targets the geographic areas, and limits the eligible uses of NSP funds.

The CDBG-R program provides grants to metropolitan cities and urban counties which must submit specified certifications and a substantial amendment to their 2008 1-year action plans as to how they propose to use the CDBG-R funds to meet the purposes of ARRA. Eligible recipients of the CDBG-R funds are grantees that received CDBG funding in 2008. The grant amount is determined by the higher of two formulas that consider a community's population, poverty level, extent of overcrowded housing, age of housing, and growth lag (42 USC 5306(b)). The Notice of Program Requirements for Community Development Block Grant Program Funding Under the American Recovery and Reinvestment Act of 2009 (FR-5309-N-01) (CDBG-R Notice) describes the common application process, and advises the public of waivers granted to recipients, alternative requirements applied, and statutory program requirements. The CDBG-R Notice provides that, except as described therein, statutory and regulatory provisions governing the CDBG program, including those under Title I of the Housing and Community Development Act of 1974, as amended (HCDA), at 24 CFR part 570, subparts A, C, D, J, K and O, for CDBG entitlement communities shall apply to the use of the CDBG-R funds. The CDBG-R Notice is available on the HUD Web site at: [http://www.hud.gov/recovery/cdblock.cfm](http://www.hud.gov/recovery/cdbblock.cfm).

The procedures and requirements that apply to the CDBG-R program apply to the Insular CDBG-R as well.

Source of Governing Requirements

These programs are authorized by Title I of the Housing and Community Development Act of 1974, as amended (Pub. L. No. 93-383) (42 USC 5301) and ARRA. Implementing regulations are located at 24 CFR part 570.

The NSP is authorized by Title III of Division B of HERA. HUD published a "Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008," (NSP Notice) that advises the public of the allocation formula, allocation amounts, the list of grantees, alternative requirements, and the waivers of regulations provided to grantees (October 6, 2008, *Federal Register*, 73 FR 58330-58349). HUD amended the NSP notice in an "NSP Bridge Notice" in the June 19, 2009, *Federal Register*, 74 FR 29223-29229.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. All activities undertaken must meet one of three national objectives of the CDBG Entitlement Grants program, i.e., benefit low- and moderate-income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency (24 CFR sections 570.200 and 570.208).

The CDBG-R Notice provides an alternative requirement for the CDBG program urgent need national objective criteria. In the regular CDBG program, in order to meet the urgent need national objective pursuant to 24 CFR section 570.208(c), the recipient must certify that: (1) the activity is designed to alleviate existing conditions which (a) pose a serious and immediate threat to the health and welfare of the community, and (b) are of recent origin or recently became urgent; (2) the recipient is unable to finance the activity on its own; and (3) other sources of funds are not available. For CDBG-R, HUD is eliminating the recordkeeping requirement that grantees document the nature, degree, and timing of the seriousness of the condition to be addressed by the activity if the urgent need is based on current economic conditions. HUD has determined that current economic conditions are of recent origin and pose a serious and immediate threat to the economic welfare of communities; therefore, HUD will accept a grantee's certification that current economic conditions are of recent origin and constitute a serious and immediate threat to the welfare of the community. However, the grantee must demonstrate that it is unable to finance the activity on its own, and that other sources of funding are not available. The CDBG-R Notice waives 24 CFR sections 570.506(b)(12)(i) and (iii) and 570.208(c) to the extent necessary to allow grantees to certify that an activity is designed to address current economic conditions which pose a threat to the economic welfare of communities (CDBG-R Notice, Section II.E).

2. Grants funds are to be used for the following activities: (a) the acquisition of real property; (b) the acquisition, construction, reconstruction, rehabilitation or installation of public works, facilities and sites, or other improvements, including removal of architectural barriers that restrict accessibility of elderly or severely disabled persons; (c) clearance, demolition, and removal of buildings and improvements; (d) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (e) disposition of real property acquired under this program; (f) provision of public services (subject to limitations contained in the CDBG regulations); (g) payment of the non-Federal share for another grant program for activities that are otherwise eligible;

(h) interim assistance where immediate action is needed prior to permanent improvements or to alleviate emergency conditions threatening public health and safety; (i) payment to complete a Title I Federal Urban Renewal project; (j) relocation assistance; (k) planning activities; (l) administrative costs; (m) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (n) assistance to community-based development organizations; (o) activities related to privately-owned utilities; (p) assistance to private, for-profit businesses, when appropriate to carry out an economic development project; (q) construction of housing assisted under Section 17 of the United States Housing Act of 1937; (r) reconstruction of properties; (s) direct homeownership assistance to low and moderate income households to facilitate and expand homeownership; (t) technical assistance to public or private entities for capacity building (exempt from the planning/administration cap); (u) housing services related to HOME-funded activities; (v) assistance to institutions of higher education to carry out eligible activities; (w) assistance to public and private entities (including for-profits) to assist micro-enterprises; (x) payment for repairs and operating expenses for acquired “in Rem” properties; (y) residential rehabilitation, including code enforcement in deteriorated or deteriorating areas, lead-based paint hazard evaluation, and removal; and (z) construction or improvement of tornado-safe shelters for residents of manufactured housing and provision of assistance to non-profit and for-profit entities for such construction or improvement (42 USC 5305(a); 24 CFR sections 570.200 through 570.207).

3. **The CDBG program provides for float-funded activities and guarantees, a short-term financing mechanism which allows a grantee to use undisbursed funds in its line of credit and CDBG program account that are budgeted in action plans for one or more other activities that do not need the funds immediately. Each activity carried out using the float must meet all CDBG requirements and must be expected to produce program income in an amount at least equal to the amount of float so used. Because program income generated from CDBG-R activities will not be treated as program income to the CDBG-R program, grantees may not use CDBG-R funds to assist any float-funded activity or guarantee. To implement this, HUD has waived the provision at 24 CFR section 570.301(b), thereby making float-funded activities not allowable with CDBG-R funds (CDBG-R Notice, Section II.D; 24 CFR section 570.301).**
4. Entitlement grantees (14.218) may have loans guaranteed by HUD under Section 108 of the Housing and Community Development Act of 1974, (42 USC 5308). The guaranteed loan funds are to be used only for the following activities: (a) acquisition of real property; (b) housing rehabilitation; (c) rehabilitation of publicly owned real property; (d) eligible CDBG economic development activities; (e) relocation payments, (f) clearance, demolition, and removal; (g) payment of interest on Section 108 guaranteed obligations; (h) payment of issuance and other costs associated with private sector financing under this subpart; (i) site preparation related to redevelopment or use of real property

acquired or rehabilitated pursuant to this subpart or for economic development purposes; (j) construction of housing by non-profit organizations for home ownership under Section 17(d) of the U.S. Housing Act of 1937 (12 USC 1715(l)) or Title VI of the Housing and Community Development Act of 1987; (k) debt service reserve; (l) acquisition, construction, reconstruction, rehabilitation or installation of public works and site or other improvements which serve “colonias” (as defined in Section 916 of the Housing Act of 1990 and amended by Section 810 of the Housing and Community Development Act of 1992); and (m) acquisition, construction, rehabilitation, or installation of public facilities (except for buildings for the general conduct of government), public streets, sidewalks, and other site improvements, and public utilities (24 CFR sections 570.700 through 570.710).

5. **The CDBG-R Notice provides an alternative requirement concerning the Section 108 Loan Guarantee program. The Section 108 program is intended to provide longer-term project financing and requires a pledge of future CDBG funds over the life of the loan guarantee, whereas the CDBG-R program is a one-time appropriation of limited duration. CDBG-R funds may not be used: (a) as a pledge of security for repayment of Section 108 loans; (b) to securitize borrowing under the Section 108 program; or (c) as repayment for funds borrowed under the Section 108 program, and they may not be counted toward a grantee’s maximum Section 108 borrowing authority. Therefore, HUD has waived the applicability of 42 USC 5308 and Subpart M of 24 CFR part 570 for the use of CDBG-R funds (CDBG-R Notice, Section II.E.; 24 CFR sections 570.700 through 570.710).**
6. All the activities that a grantee undertakes during its CDBG program year must be identified in an action plan or an amended action plan (24 CFR sections 91.220 and 570.301). Plan amendment is only required to reflect significant changes in activities or funding decisions for these years (24 CFR section 91.235).

All of the activities that a grantee undertakes using CDBG-R funds must be identified in a substantial amendment to its action plan. The required elements in the CDBG-R substantial amendment to the action plan for entitlement communities include a description of the activities the jurisdiction will undertake with CDBG-R funds to address priority needs and objectives. The regulation at 24 CFR section 91.220(l)(ii) has been waived; instead the grantee is required to identify any other ARRA funding to be used in conjunction with each CDBG-R-assisted activity it intends to fund with the CDBG-R allocation (CDBG-R Notice, Section II.A.; 24 CFR sections 91.220 and 570.301).
7. CDBG funding can only be used for special economic development projects that meet the criteria in 24 CFR section 570.203. Grantees must have data to support that assistance provided to carry out special economic development projects is appropriate by meeting the public benefit standards for job creation and provision of goods and services described in 24 CFR section 570.209.

The CDBG-R Notice provides an alternative requirement for public benefit standards to expedite the timely use of CDBG-R funds by grantees. In the regular CDBG program, the public benefit standards at 24 CFR sections 570.209(b), (c), and (d) for entitlement grantees apply to economic development projects under the authority of 24 CFR section 570.203 and 42 USC 5305(a)(2), (14), (15), or (17). The CDBG-R Notice waives 42 USC 5305(e)(3), and 24 CFR sections 570.209 and 570.506(c) to the extent necessary to permit grantees to carry out economic development projects without meeting the public benefit standards, except that the regulations pertaining to prohibited activities listed at 24 CFR sections 270.209(b)(3)(ii)(A) though (E) are not waived (CDBG-R Notice, Section II.E.).

8. When CDBG funds are used to finance rehabilitation, the rehabilitation is to be limited to privately owned buildings and improvements for residential purposes, low income public housing and other publicly owned residential buildings and improvements, publicly or privately owned commercial or industrial buildings, structures, or other real property, equipment, and improvements under certain circumstances, as well as manufactured housing when it constitutes part of the community's permanent housing stock (24 CFR sections 570.202 and 570.203).
9. For NSP funds, HERA requirements supersede some CDBG requirements to allow for the eligible uses in section 2301(c)(3) of HERA. The NSP categories and CDBG entitlement grant regulations are listed in Section II.H.3.a of NSP Notice, 73 FR 58338. The NSP eligible uses are to:
 - Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties.
 - Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon for later sale, rent or redevelopment.
 - Establish land banks for homes that have been foreclosed upon.
 - Demolish blighted structures
 - Redevelop demolished or vacant properties.
10. For NSP funds, NSP requirements supersede existing CDBG requirements (see III.A.1, above) to permit the use of only the low- and moderate-income national objective for NSP-assisted activities. A NSP activity may not qualify using the "prevent or eliminate slums and blight" or "address urgent community development needs" national objectives. The HERA redefines and supersedes the definition of "low- and moderate-income," effectively allowing households whose incomes exceed 80 percent of area median income but do not exceed 120 percent of median income to qualify as if their incomes did not exceed the published low- and moderate-income levels of the regular CDBG program (Section III.E. of NSP Notice, 73 FR 58335-58336). HUD will refer to this new income group as

“middle income” and maintain the regular CDBG definitions of “low-income” and “moderate-income” currently in use (Section 2301(f)(3)(A) of HERA).

11. For purposes of NSP only, an activity may meet the HERA established low- and moderate-income national objective if the assisted activity: (a) Provides or improves permanent residential structures that will be occupied by a household whose income is at or below 120 percent of area median income; (b) Serves an area in which at least 51 percent of the residents have incomes at or below 120 percent of area median income; or (c) Serves a limited clientele whose incomes are at or below 120 percent of area median income (Section 2301(f)(3)(A) of HERA; Section II.E. of NSP Notice, 73 FR 58335-58336).
12. Eligible uses of NSP funds authorized by HERA are: (a) establishing financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties; (b) purchasing and rehabilitating homes and residential properties abandoned or foreclosed; (c) establishing land banks for foreclosed homes; (d) demolishing blighted structures; and (e) redeveloping demolished or vacant properties. The NSP Notice lists the CDBG-eligible activities HUD has determined best correlate to these specific NSP-eligible uses. Grantees must receive written HUD approval to undertake activities other than those listed in Section II.H., Eligibility and Allowable Costs, of NSP Notice (Section 2301(c)(3) of HERA; Section II.H. of NSP Notice, 73 FR 58337-58338).

D. Davis-Bacon Act

The requirements of the Davis-Bacon Act apply to the rehabilitation of residential property only if such property contains 8 or more units. However, the requirements do not apply to volunteer work where the volunteer does not receive compensation, or is paid expenses, reasonable benefits or a nominal fee for such services, and is not otherwise employed at any time in construction work (42 USC 5310; Section 1606 of ARRA; Section 1205 of Pub. L. No. 111-32; 24 CFR section 570.603).

G. Matching, Level of Effort, Earmarking

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable
3. **Earmarking**
 - a. Not less than 70 percent of the funds must be used over a period of up to three years, as specified by the grantee in its certification, for activities that benefit low- and moderate-income persons. In determining low- and moderate-income benefits, the criteria set forth in 24 CFR sections 570.200(a)(3) and 570.208(a) are used.

This requirement does not apply to NSP funds as HERA provides for supersession of the overall 70 percent requirement and establishes an alternative requirement for NSP funds where 100 percent of NSP funds must be used to benefit individuals and households whose income does not exceed 120 percent of the area median income. For NSP such households are referred to as low-income, moderate-income and middle-income (Section 2301(c)(2) of HERA; Section II.E. of NSP Notice, 73 FR 58336).

The CDBG-R Notice provides an alternative requirement for overall low- and moderate-income CDBG program benefit. The requirement that 70 percent of funds must be used for activities that benefit low- and moderate-income persons (42 USC 5301(c), 42 USC 5304(b)(3)(A), and 24 CFR section 570.200(a)(3)) applies to the use of CDBG-R funds. A grantee must ensure that 70 percent of its CDBG-R grant will be expended for activities that benefit low- and moderate-income persons. Compliance with the overall benefit requirement must be demonstrated separately for the CDBG-R grant and not in combination with regular CDBG funding or commitments under the Section 108 Loan Guarantee program; thus, no option exists for selecting the timeframe for compliance. Consequently, 42 USC 5304(b)(3)(A), and 24 CFR section 570.200(a)(3) are waived to the extent necessary to require that CDBG-R funds are required to principally benefit persons of low- and moderate-income in a manner that ensures that not less than 70 percent of such funds are used for activities that benefit such persons, exclusive of any other funds received by the grantee under 42 USC 5306 or as a result of a guarantee or a grant under 42 USC 5308. A grantee must meet this requirement over the life of its CDBG-R grant (CDBG-R Notice, Section II.E.).

- b. Not more than 20 percent of the total CDBG grant, plus 20 percent of program income received during a program year, may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR sections 570.205 and 570.206 (24 CFR section 570.200(g)).

HERA provides for supersession of the 20 percent of any grant amount plus program income limitation to be used for general administration and planning costs. The alternative requirements are that up to 10 percent of the amount of a NSP grant and up to 10 percent of program income earned may be used for general administration and planning activities, as those are defined in 24 CFR sections 570.205 and 570.206 (Section 2301(f)(1) of HERA; Section II.H. of NSP Notice, 73 FR 58337).

The CDBG-R Notice provides an alternative requirement to limitations on planning and general administrative activities because there will be no program income attributed to CDBG-R and CDBG-R is to be treated as a separate appropriation of funds. Compliance

with the planning and administration costs cap must be demonstrated separately based on each grantee's total CDBG-R grant allocation and not in combination with its regular CDBG funding or program income. The CDBG-R Notice waives 42 USC 5306(d)(3), (5) and (6) and 24 CFR section 570.200(g) to the extent necessary to establish the following requirement: no more than 10 percent of CDBG-R funds shall be expended for eligible planning and general administrative activities as defined in 42 USC 5305(a)(12) and (a)(13), 5306(d)(3), and in 24 CFR sections 570.205 and 570.206, exclusive of any other funds received by the grantee under 42 USC 5306 (CDBG-R Notice, Section II.E.).

- c. The amount of CDBG funds obligated during the program year for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income it received during the preceding program year, except that a non-Federal entity that obligated more CDBG funds for public services than 15 percent of its grant funded from Federal Fiscal Years 1982 or 1983 appropriations (excluding program income and any assistance received pursuant to Pub. L. No. 98-8) may obligate more CDBG funds than 15 percent as long as the amount obligated in any program year does not exceed 15 percent of the program income it received during the preceding program year plus the percentage or amount obligated in Federal Fiscal Year 1982 or 1983, whichever method of calculation yields the higher amount (24 CFR section 570.201(e)).

The CDBG-R Notice provides an alternative requirement to limitations on public service activities. HUD is providing an alternative requirement because there will be no program income attributed to CDBG-R and CDBG-R is to be treated as a separate appropriation of funds. Thus, 42 USC 5305(a)(8) and 24 CFR sections 570.201(e)(1) and (e)(2) are waived to the extent necessary to require that no more than 15 percent of CDBG-R funds shall be expended for eligible public service activities, exclusive of any other funds received by the grantee under 42 USC 5306. Compliance with the public service cap must be demonstrated separately based on each grantee's total CDBG-R grant allocation and not in combination with its regular CDBG funding or program income. HUD is waiving 42 USC 5305(a)(8) to exclude program income from the amount of funds on which the cap is based. Other provisions of that section remain in place. Compliance will be demonstrated based on expenditures of CDBG-R funds, not on obligations as in the regular CDBG program. A grantee must meet this requirement over the life of the CDBG-R grant (CDBG-R Notice, Section II.E.; 24 CFR section 570.201(e)).

- d. At least 25 percent of NSP funds shall be used for the purchase and redevelopment of abandoned or foreclosed upon homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of the area median income (Section 2301(f)(3)(A)(ii) of HERA).

H. Period of Availability of Federal Funds

For entitlements for CDBG-R funds, HUD has waived the CDBG program's timely expenditure regulatory requirements of 24 CFR section 570.902 to the extent that CDBG-R funds must be expended by September 30, 2012. These funds will not be included in determining compliance with the timely expenditure compliance requirements of 24 CFR section 570.902. However, income generated from CDBG-R activities will be treated as program income to grantees' regular CDBG programs, and thus will be included in timely expenditure compliance determinations (see III.J.4 below) (CDBG-R Notice, Section II.F.).

I. Procurement and Suspension and Debarment

For CDBG-R recipients, the applicability of the ARRA Buy American requirement in Section 1605 of ARRA is still under review by HUD.

J. Program Income

1. The grantee must accurately account for any program income generated from the use of CDBG funds **or ARRA funds**, and must treat such income as additional CDBG funds which are subject to all program rules. Program income does not include income received in a single program year by the grantee and all of its subrecipients if the total amount of such income does not exceed \$25,000 (24 CFR sections 570.500, 570.504, and 570.506).
2. Making loans and collecting the payments on those loans can be a significant source of program income for grantees. The use of income derived from loan payments is subject to program requirements. This carries with it the responsibility for grantees to have a loan origination and servicing system in effect which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized (24 CFR sections 570.500, 570.501, 570.504, 570.506, and 570.513).
3. NSP revenue received by a unit of general local government or subrecipient that is directly generated from the use of CDBG funds (which includes NSP grant funds) constitutes CDBG program income. The CDBG definition of program income shall be applied to amounts received by units of local government and subrecipients (Sections 2301(c)(3) of HERA; 24 CFR section 570.500; Section II.N. of NSP Notice 73 FR 58340-58341 and NSP Bridge Notice, 74 FR 29224).

4. **The CDBG-R Notice provides an alternative requirement pertaining to program income earned from CDBG-R assisted activities. All program income generated from the use of CDBG-R funds will be treated as program income to the regular CDBG program, not as program income to the CDBG-R program. The regulations at 24 CFR sections 85.21 and 570.504 require grantees and subrecipients to disburse program income before requesting additional cash withdrawals of regular CDBG funds from the U.S. Treasury; these requirements will not apply to the drawdown of CDBG-R funds (CDBG-R Notice, Section II.D).**

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Applicable
- e. *Integrated Disbursement and Information System (IDIS) (OMB No. 2506-0077)* - Grantees may include reports generated by IDIS as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of a grantee's program year. Auditors are only expected to test information extracted from IDIS in the following system-generated reports:
 - (1) C04PR03 - Activity Summary Report
 - (2) C04PR26 - CDBG Financial Summary

2. Performance Reporting

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, (OMB No. 2529-0043) – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002. (24 CFR sections 135.3(a), 135.90, and 570.607).

Key Line Items –

- a. 3. Dollar Amount of Award
- b. 8. Program Code

- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
 - (1) A. Total dollar amount of construction contracts awarded on the project
 - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
 - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
 - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
 - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
 - (3) D. Total number of Section 3 businesses receiving non-construction contracts

3. Special Reporting - Not Applicable

M. Subrecipient Monitoring

Before disbursing any CDBG or CDBG-R funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements (24 CFR section 570.503).

N. Special Tests and Provisions

1. Citizen Participation

Compliance Requirement - Prior to the submission to HUD for its annual grant, the grantee must certify to HUD that it has met the citizen participation requirements in 24 CFR sections 91.105 and 570.302, as applicable.

HERA provided for supersession of the citizen participation requirement to expedite the distribution of NSP grant funds and to provide for expedited citizen participation. The provisions of 24 CFR sections 570.302 and 91.105 with respect to following the citizen participation plan are waived to allow the jurisdiction to provide no fewer than 15 calendar days for citizen comment, rather than 30 days, for its initial NSP submission (Section II.B.4 of NSP Notice, 73 FR 58334).

CDBG-R - The CDBG-R Notice provides an alternative requirement to provide for expedited citizen participation for the CDBG-R substantial amendment. The following citizen participation plan requirements are waived: (1) 24 CFR section 91.105 is being waived to specify that the grantee will provide no fewer than 7 calendar days for citizen comment (rather than 30 days) for its CDBG-R substantial amendment and (2) the requirement at 24 CFR section 91.505(c)(1) that states a grantee may submit a copy of an amendment to its action plan to HUD as it occurs or at the end of the program year has been waived to require each grantee to submit the substantial amendment to its action plan for CDBG-R funds no later than June 5, 2009 (CDBG-R Notice, Section II.A.).

Audit Objective (CDBG) – Determine whether the grantee has developed and implemented a citizen participation plan.

Suggested Audit Procedures - (CDBG)

- a. Verify that the grantee has a citizen participation plan.
- b. Review the plan to verify that it provides for public hearings, publication, public comment, access to records, and consideration of comments.
- c. Examine the grantee's records for evidence that the elements of the citizen's participation plan were followed as the grantee certified.

Audit Objective (CDBG-R) - Determine whether the grantee adhered to the applicable provisions of the CDBG-R Notice as it pertains to the citizen participation plan.

Suggested Audit Procedures - (CDBG-R)

- a. **Verify that the grantee has a citizen participation plan.**
- b. **Review the plan to determine how the grantee effected modifications to its citizen participation plan process to comply with the CDBG-R Notice provisions.**
- c. **Examine the grantee's records for evidence that the elements of the citizen's participation plan, as modified by the CDBG-R Notice, were followed as the grantee certified.**

2. Required Certifications and HUD Approvals

Compliance Requirement - CDBG funds (and local funds to be repaid with CDBG funds or CDGB-R funds) cannot be obligated or expended before receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification, except for exempt activities under 24 CFR section 58.34 and categorically excluded activities under section 58.35(b) (24 CFR section 58.22).

Audit Objective - Determine whether the grantee is obligating and expending program funds only after HUD's approval of the RROF.

Suggested Audit Procedures

- a. Examine HUD's approval of the RROF and environmental certification and note dates.
- b. Review the expenditure and related records to ascertain when CDBG funds or **CDGB-R funds**, and local funds which were repaid with CDBG funds or **CDGB-R funds**, were first obligated or expended and ascertain if any funds were obligated or expended prior to HUD's approval of the RROF.

3. Environmental Reviews

Compliance Requirement - Projects must have an environmental review unless they meet criteria specified in the regulations that would exempt or exclude them from RROF and environmental certification requirements (24 CFR sections 58.1, 58.22, 58.34, 58.35, and 570.604).

Audit Objective - Determine whether environmental reviews are being conducted, when required.

Suggested Audit Procedures

- a. Verify through a review of environmental review certifications that the environmental reviews were made.
- b. Select a sample of projects where an environmental review was not performed and ascertain if a written determination was made that the review was not required.
- c. Test whether documentation exists that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR sections 58.34 and 58.35(b).

4. Rehabilitation

Compliance Requirement - When CDBG funds or **CDGB-R funds** are used for rehabilitation, the grantee must ensure that the work is properly completed (24 CFR section 570.506).

Any NSP-assisted rehabilitation of a foreclosed-upon home or residential property shall be completed to the extent necessary to comply with applicable laws, codes and other requirements relating to housing safety, quality, or habitability, in order to sell, rent or redevelop such homes and properties. To comply with this provision, a grantee must describe or reference in its NSP action plan amendment what rehabilitation standards it

will apply for NSP-assisted rehabilitation (Section 2301(d)(2) of HERA; Section II.I. of NSP Notice, 73 FR 58338).

Audit Objective - Determine whether the grantee assures rehabilitation work is properly completed.

Suggested Audit Procedures

- a. Verify that pre-rehabilitation inspections are conducted describing the deficiencies to be corrected.
- b. Ascertain that the deficiencies to be corrected are incorporated into the rehabilitation contract.
- c. For NSP projects, review rehabilitation standards.
- d. Verify through a review of documentation that the grantee inspects the rehabilitation work upon completion to assure that it is carried out in accordance with contract specifications, and that NSP projects were carried out in accordance with rehabilitations standards.

IV. OTHER INFORMATION

See Appendix VI for program waivers related to Hurricanes Katrina and Rita.

ARRA gave HUD the authority to waive or specify alternative requirements for some of the statutory and regulatory provisions to facilitate the use of CDBG-R funds. Most of the waivers are contained in the CDBG-R Notice.